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Seize Global Opportunities.
Create a Beautiful China.

美丽家园
MERRY GARDEN

MERRY GARDEN HOLDINGS LIMITED
美麗家園控股有限公司

Annual Report 2013

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1237

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Highlights for the Year

FINANCIAL

- Turnover increased by 12.8% to RMB475.1 million.
- Turnover from North America and Asia Pacific (exclusive of the People's Republic of China (the "PRC")) markets increased significantly by 65% and 98% respectively.
- Gross profit increased to RMB151.7 million, while gross profit margin maintained at above 30%.
- Profit for the year increased by 55.3% to RMB124.4 million.
- Earnings per share increased by 33% to RMB0.12.
- Final dividend of HK$0.013 (equivalent to approximately RMB0.0103) per share is recommended by the Board.

OPERATIONAL

- Phase II production facilities in full operation since December 2013 which increased the Group's total annual production capacities significantly by 70% to 110,000 cubic meters.
- Further expansion of market coverage to Maldives.
- Number of self-operated stores increased to 19 across the major cities in the PRC.
- Maintained gross profit margin stable notwithstanding the rapid increase in global timber prices.

PROSPECTS

- Analysis from the United Nations expects further growth from the United States of America (the "U.S.") and European economies, pulling up market demand on timber villas and their related parts and structures.
- The "Outline of national tourism and leisure" published by the State Council of the PRC will further encourage the investment of recreational facilities across the PRC, pulling up the demand of our wooden products.
- Further expansion of production facilities increasing the total capacity to 230,000 cubic meters by 2015.

Corporate Information

CORPORATE PROFILE

Merry Garden Holdings Limited ("the Company") is a wooden leisure product enterprise in the PRC with over 20 years of experience in production and sales of leisure household products and timber villas and their related parts and structures. The Company has established its sales network through distributors as well as its self-operated retail stores network. The Company has launched a series of wooden leisure products in order to promote a leisure and natural lifestyle. The Company was listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") in 2012.

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Zheyan *(Chairman and Chief Executive Officer)*
Mr. Wu Qingshan
Ms. Xie Qingmei

Non-executive Director

Mr. Wu Dongping

Independent non-executive Directors

Mr. Lam Hin Chi
Prof. Jin Zhongwei
Prof. Su Wenqiang

AUDIT COMMITTEE

Mr. Lam Hin Chi *(Chairman)*
Prof. Su Wenqiang
Prof. Jin Zhongwei

REMUNERATION COMMITTEE

Prof. Jin Zhongwei *(Chairman)*
Prof. Su Wenqiang
Mr. Lam Hin Chi

NOMINATION COMMITTEE

Prof. Jin Zhongwei *(Chairman)*
Prof. Su Wenqiang
Mr. Lam Hin Chi

COMPANY SECRETARY

Mr. Wong Wai Lun, *CPA*

AUTHORISED REPRESENTATIVES

Mr. Wong Wai Lun
Mr. Wu Zheyan

AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China, Zhangping Branch
China Construction Bank, Zhangping Branch
Bank of China, Zhangping Branch

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2702
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

HEAD OFFICE IN THE PRC

Fushan Industrial District
Zhangping, Fujian, the PRC

Corporate Information *(Continued)*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

WEBSITE

www.merrygardenholdings.com

STOCK CODE

1237

LEGAL ADVISOR

Eversheds
21st Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Chairman's Statement

Dear Shareholders,

On behalf of the Board of the Company, I am pleased to present you the annual results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2013.

RESULTS

During the year ended 31 December 2013, turnover of the Group was RMB475.1 million, representing a growth of 12.8% over the year ended 31 December 2012 and was mainly driven by the growth in the U.S. and Asia Pacific (exclusive of the PRC) markets. Our gross profit margin was 31.9%. Our gross profit was RMB151.7 million, compared with RMB148.7 million in last year. Profit of the Group for the year ended 31 December 2013 amounted to RMB124.4 million, representing a substantial growth of 55.3% compared with a profit of RMB80.1 million in last year.

BUSINESS REVIEW

During 2013, the Group accomplished various significant developments and achieved satisfactory results. These accomplishments have provided a solid foundation for the future development of the Group.

Integration and expansion of production facilities

In December 2013, the Group's Phase II production facilities had commenced full operation. As a result, the production capacity for timber villas and their related parts and structures of the Group significantly increased by 70% to approximately 110,000 cubic meters per annum, providing a strong driver to the Group's continuous growth in its businesses and income.

Exploration of overseas markets

Owing to the improvement of the economy of the U.S., sales of residential properties in 2013 has reached a record high over the past seven years according to the statistics released by the National Association of Realtors. Nevertheless, with the expansion of our customers base to new overseas markets, such as Maldives, the Group recorded encouraging results for the year with impressive year-on-year sales growth of 65% and 98% in North America and Asia Pacific (exclusive of the PRC) respectively. During the year, the Group set up a wholly-owned subsidiary in the U.S. which diversified the Group's customer portfolio in North America and established a direct sales channel to retailers in the region. The Group is committed to maintain stable and long-term relationship with overseas customers. The overseas sales performance for the year is an evidence of the Group's effective strategy and it will render us with considerable benefits in our long-term development.

Expansion of domestic sales network

As the economy in the PRC gradually transformed from investment-driven to consumption-driven, the Group actively expanded its domestic sales network while maintaining steady business growth. During the year ended 31 December 2013, the Group continued to invest resources in the development of our own brand "Merry Garden" and increased its flagship stores and self-operated retail stores to 19 from 7 in last year. Meanwhile, the Group's sales revenue from its own-branded retail business has also increased by 16.4% over last year, which has proven our efforts on marketing and the provision of quality services.

OUTLOOK

Market expansion

According to the analysis of the annual report of the United Nations Department of Economic and Social Affairs — "World Economic Situation and Prospects 2014", it is expected that the growth of the U.S. economy will accelerate, while the European economy will sail back to the growth track, both economies will be the main driver of global economic development in 2014. We believe that economic growth in Europe and the U.S. will stimulate the demand for housing in the regions. Currently, over half of the houses built in North America and Europe are wooden constructions. Therefore, a substantial increase in demand for timber villas and their related parts from the European and the U.S. markets is expected. We will actively tap into overseas markets through direct sales and internet sales. In early 2014, we launched a new own-brand in the U.S. market and commenced internet sales. We are optimistic about the prospect of our overseas sales. The Group will continue to maintain a stable and long-term relationship with overseas customers to safeguard the long-term development of the Group.

In February 2013, the State Council of the PRC published the "Outline of national tourism and leisure" ("國民旅遊休閒綱要") (the "Outline") which set out the direction of promoting tourism and leisure facilities with traditional Chinese characteristics so as to satisfy the increasing demand on leisure activities from the public. We believe that the Outline will stimulate the developments of domestic leisure and tourism, park facilities and tourism property projects, and in turn drive the demand of our timber villa products and outdoor and indoor furniture products. With the improvement of living standards in the PRC, the domestic market will have greater demand for personal leisure home products. The Group will continue to set up self-operated retail stores at major tourist cities in the PRC. The Group will also continue to expand its distribution network and promote its "Merry Garden" brand to the domestic market.

Capacity enhancement

In anticipation of a significant growth in the market demand of our products, the Group intends to further increase its annual production capacity from the current 110,000 cubic meters to 230,000 cubic meters by the year 2015, and to introduce more automated production lines. The Group has commenced dwelling and leveling activities for Phase III production facilities on a new piece of land adjacent to the Phase II production facilities. It is expected that the first part of construction for the entire Phase III production facilities will be completed by the fourth quarter of 2014. With the new production lines, we believe that the production efficiency and capacity will be significantly improved, ensuring the Group's production capacity to live up with the demand of our customers.

Acquisitions and mergers

We will actively seek for partnerships with timber product manufacturers who owned its timber processing factories, warehouse facilities or established sales networks both in the PRC and overseas through mergers and acquisitions to achieve advancement in technology and production capacity as well as expand our sales channels, in order to boost the future development of our business.

Innovation, research and development

As a High and New Technology Enterprise, we will expand and improve our research and development activities through continuous investments, so as to maintain our leading position in the areas of wood preservation, enhancement of overall utilisation rate and values as well as research and development on original designs. As at 31 December 2013, we owned 87 registered patents, 8 of which are on its core technology. Through integration of production facilities, we will recycle and reuse the residues generated from the production processes, in order to optimise the overall utilisation rate of raw materials. We have also set up new production lines to convert production residues into biomass pellet fuel and thereby achieve a 100% utilisation rate in terms of timber processing. This will not only enhance economic benefits, but also provide clean energy for the market. With reference to the Group's current annual production capacity, it is expected that these production lines will have annual production capacity of 40,000 tons, and it will bring a new source of income for the Group.

APPRECIATION

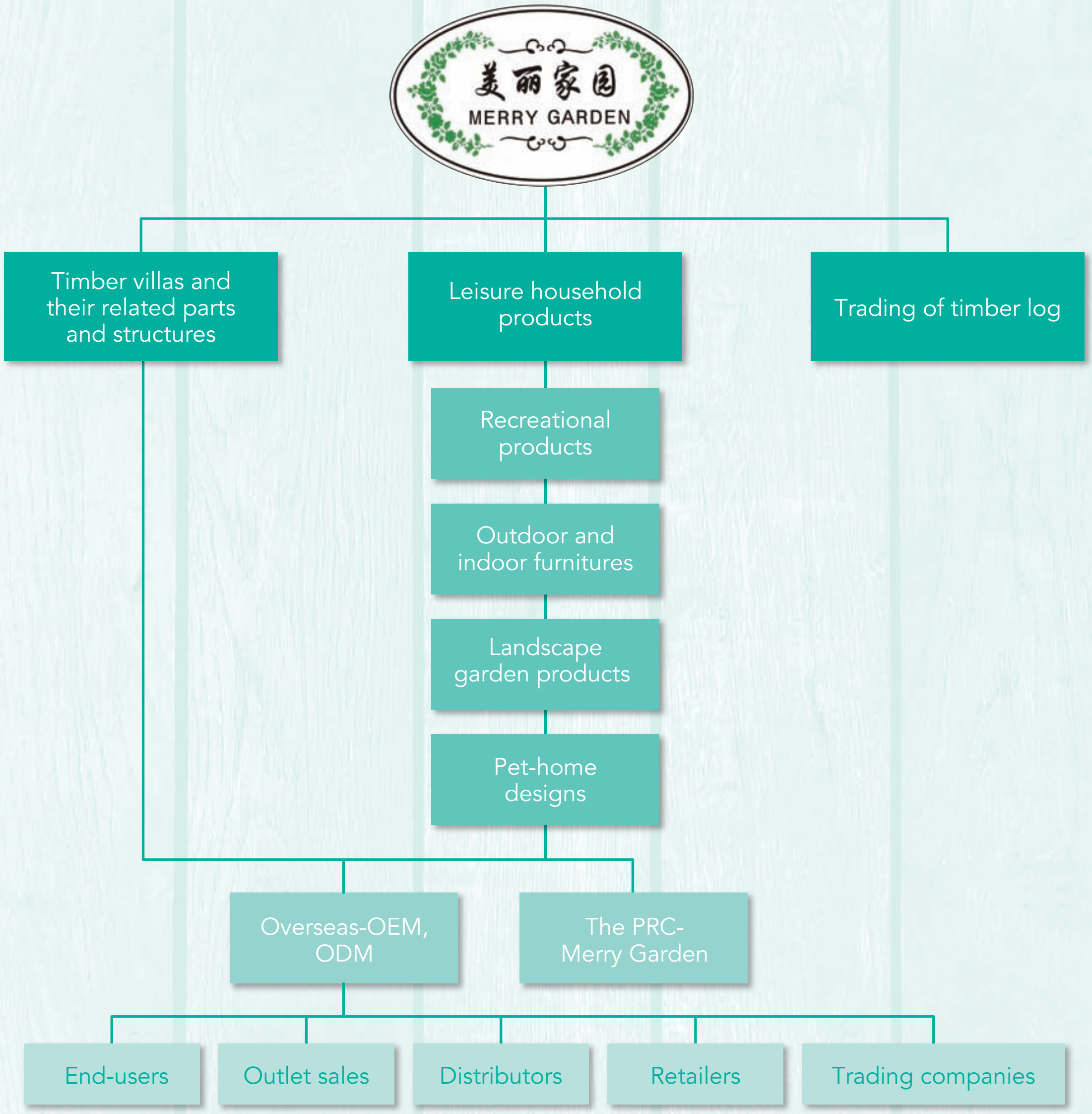
On behalf of the Board, I would like to extend my heartfelt thanks to the long-term support and trust of our shareholders and business partners. I would also like to thank the Group's employees for their consistent effort in aiding the Group to achieve an outstanding performance. The Group will devote unremitting efforts to innovation, consolidating our strengths and develop proactively, with a vision to build up a better "Merry Garden".

Wu Zheyan
Chairman and Chief Executive Officer

Hong Kong, 24 March 2014

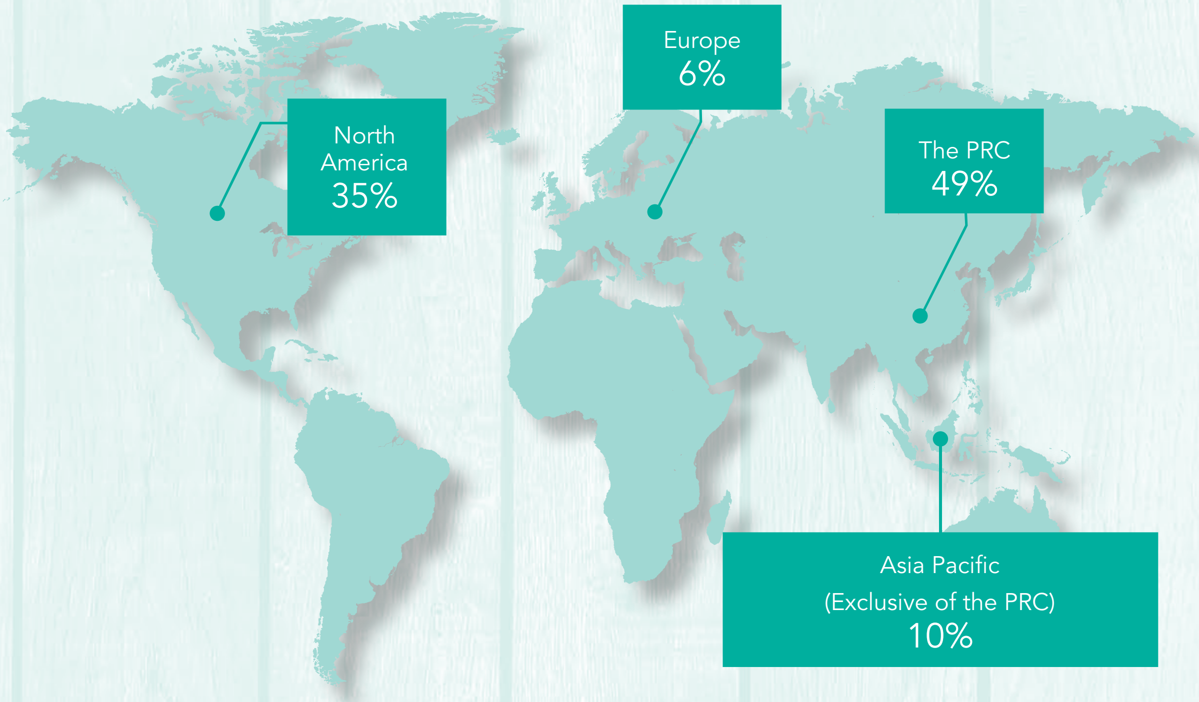
Management Discussion and Analysis

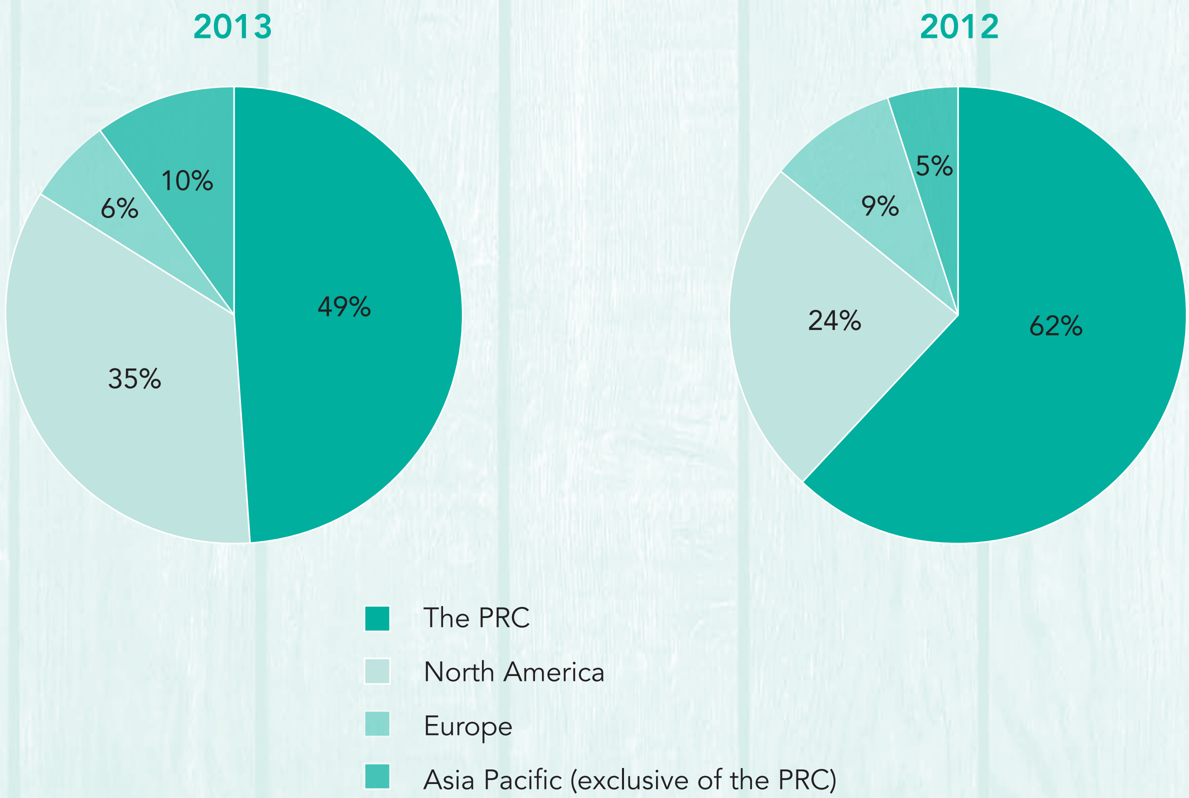
OUR BUSINESS COMPOSITION



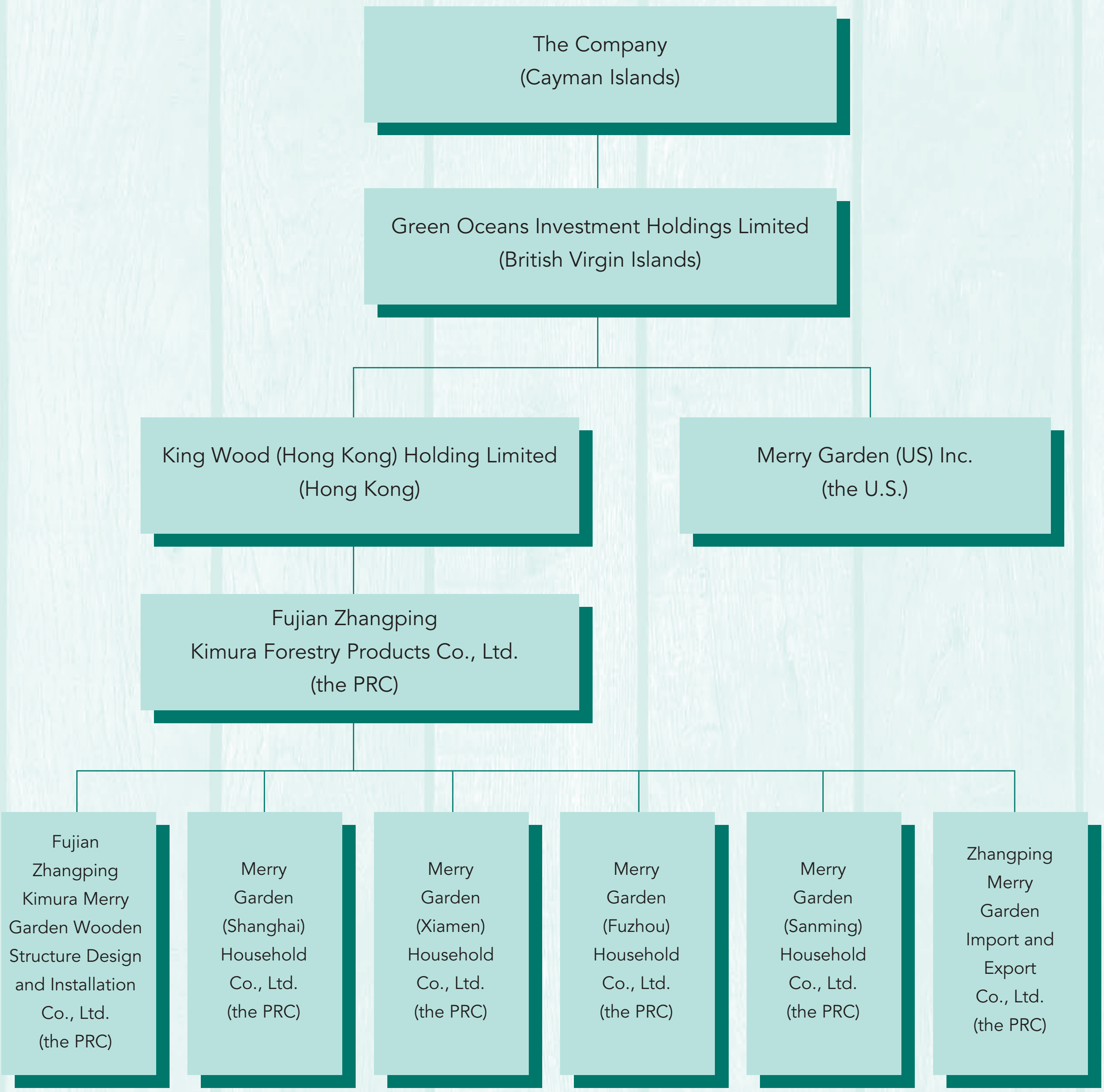
OUR MARKET DISTRIBUTION

2013





OUR ORGANISATION STRUCTURE



BUSINESS REVIEW

During the year ended 31 December 2013, the Group continued to engage in the production and sale of leisure household products, timber villas and their related parts and structures. The success of our operations is determined by: (i) enhancement of design and research of technologies; and (ii) expansion of markets. We have adopted appropriate strategies in response to these factors, whereby we maintain long-term partnerships with our existing customers while actively tapping into new markets. In addition, we are dedicated to research and development, cost control and expansion of production capacity, these measures enabled the Group to achieve satisfactory results.

Steady revenue growth

During the year ended 31 December 2013, the Group recorded handsome growth in revenue generated from its operations in North America and Asia Pacific (exclusive of the PRC), represented an increase of 65% and 98% respectively from the year ended 31 December 2012. The growth in revenue was mainly attributable to the improvement of the U.S. economy and our expanded customers base to new overseas markets, such as Maldives. Given the increasing market demand of our products from both domestic and overseas' customers, the Group has therefore invested in the expansion of the Phase III production facilities, in order to ensure that the future production capacity of the Group can satisfy the growing demand from our customers (For details, please refer to the paragraph headed "Business review — Integration and expansion of production capacity" in this section). During the year ended 31 December 2013, the Group continued to invest in the retail business of its own brand. The Group has

established a total of 19 flagship stores and self-operated stores at cities including Shanghai, Guangzhou, Xiamen, Ningbo, Suzhou, Meizhou, Quanzhou and Ganzhou, an addition of 12 stores compared with last year. Sales revenue contributed by retail business of the Group also increased by 16.4% from last year.

Controlling costs vigorously

Timber is the Group's key raw material and its price has increased significantly during the year ended 31 December 2013. The Group has taken measures through diversifying its supplier base, making prepayments to its suppliers and increasing stock level to stabilise its cost of timber. In addition, we strived to eliminate the adverse impact of the surge in raw material cost by improving product design and enhancing the raw material utilisation. As a result, we managed to maintain our gross profit margin for the year ended 31 December 2013 at above 30%.

Integration and expansion of production capacity

As mentioned above, the Group has been investing to expand production facilities to ensure that the production capacity of the Group can satisfy the demand from our customers. With the commencement of full operation of the Phase II production facilities of the Group since December 2013, our production capacity for timber villas and their related parts and structures has increased significantly by 70% to approximately 110,000 cubic meters per annum. In order to achieve the Group's objective to further increase its annual production capacity by 120,000 cubic meters by the year 2015, the Group has already commenced dwelling and leveling activities for the Phase III production facilities on a piece of land adjacent to the Phase II production facilities as part of our expansion plan.

FINANCIAL REVIEW

Results of operation

During the year ended 31 December 2013, the Group recorded turnover and profit before taxation of RMB475.1 million and RMB157.2 million respectively. Turnover increased by RMB53.9 million as a result of the increase in export sales. The Group's profit before taxation increased by RMB60.5 million as compared with last year.

Turnover

Our turnover increased by RMB53.9 million from RMB421.2 million to RMB475.1 million, represented a growth of 12.8% compared with last year. The increase was mainly driven by the increase in export sales to North America and Asia Pacific (exclusive of the PRC) by RMB65.0 million and RMB23.8 million respectively.

In terms of product category, sale of timber villas and their related parts and structures remained as the largest source of income for the Group. Also, it was the Group's major driver for sales growth during the year ended 31 December 2013. Sales derived from this product category increased by RMB33.1 million compared with last year, accounted for 43.3% of total revenue of the Group for the year ended 31 December 2013.

Revenue analysis by product category is as follows:

	2013 RMB'000	2012 RMB'000	Change in % Increase/ (decrease)
Timber villas and their related parts and structures	205,916	172,827	19.1%
Leisure household products			
Outdoor and indoor furniture products	90,323	80,487	12.2%
Recreational products	61,841	57,035	8.4%
Landscape garden products	40,047	45,819	(12.6%)
Pet-home designs	22,183	20,392	8.8%
Timber log trading	43,663	29,635	47.3%
Others	11,078	14,976	(26.0%)
	475,051	421,171	12.8%

Revenue analysis by region is as follows:

	2013 RMB'000	2012 RMB'000	Change in % Increase/ (decrease)
The PRC	231,616	259,779	(10.8%)
North America	165,141	100,127	64.9%
Europe	30,205	37,016	(18.4%)
Asia Pacific (exclusive of the PRC)	48,089	24,249	98.3%
	475,051	421,171	12.8%

Gross profit and gross profit margin

Gross profit of the Group increased by RMB3 million from RMB148.7 million for last year to RMB151.7 million alongside with the increase in turnover. Owing to the vigorous cost control measures adopted by the Group, gross profit margin for the year ended 31 December 2013 was managed to maintain at above 30% despite the surge in timber prices.

Other revenue

Other revenue increased by RMB11.3 million from RMB11.8 million for last year to RMB23.1 million for the year ended 31 December 2013. The significant increase was primarily due to additional financial incentives granted by the government.

Other net gain/(loss)

Other net gain was RMB48.7 million for the year ended 31 December 2013 (2012: loss of RMB0.8 million), which mainly represents the gain recognised in respect of the consideration for land resumption received from the Land Reserve Centre.

Selling and distribution expenses

Our selling and distribution expenses were RMB13.8 million for the year ended 31 December 2013, which represented an increase of RMB3.7 million, or approximately 36.2% over last year. The increase was primarily due to the increase in transportation charges and port charges along with the increase in export sales. The increase was also attributable to more selling and distribution expenses incurred as a result of the addition of 12 self-operated retail stores in the PRC and the newly established U.S. subsidiary during the year.

Administrative expenses

Our administrative expenses decreased slightly by RMB0.2 million, from RMB47.2 million for the year ended 31 December 2012 to RMB47.0 million for the year ended 31 December 2013, among which:

1) Research and development expenses increased by approximately RMB3.4 million from RMB10.1 million for the year ended 31 December 2012 to RMB13.5 million for the year ended 31 December 2013;

2) Rent and miscellaneous expenses also increased by approximately RMB5 million for the setting up outlets and offices in Xiamen, Shanghai and the U.S.; and

3) There were no non-recurring professional fees incurred during the year ended 31 December 2013 in connection with the Company's listing (2012: RMB12.4 million).

Finance costs

Our finance costs maintained at approximately RMB5.5 million for the year ended 31 December 2013. Despite an increase in bank borrowings during the year ended 31 December 2013 as a result of the continuous expansion of business operation and production capacity, finance costs remained at a low level due to the decrease in effective interest rate of our borrowings.

Income tax

Our income tax increased by RMB16.1 million from RMB16.7 million for last year to RMB32.8 million for the year ended 31 December 2013, primarily as a result of the increase in taxable profits of the Group. As Zhangping Kimura has been granted the High and New Technology Enterprise qualification, it is entitled to the preferential corporate income tax rate of 15% from 2013 to 2015. Our effective tax rate increased to 20.9% for the year ended 31 December 2013 from 17.2% for the year ended 31 December 2012. The increase in effective tax rate was due to the fact that taxes on income outside ordinary business of the Group were charged at the standard corporate income tax rate of 25%.

Profit for the year

As a result of the foregoing factors, profit for the year ended 31 December 2013 increased by 55.3% from RMB80.1 million for the year ended 31 December 2012 to RMB124.4 million, and net profit margin increased from 19.0% for the year ended 31 December 2012 to 26.2% for the year ended 31 December 2013. Basic and diluted earnings per share amounted to RMB0.12 for the year ended 31 December 2013 (2012: RMB0.09).

Dividends

The Board declared a final dividend of HK$0.013 per share. The total payout will amount to HK$13 million, representing approximately 8% of the profit for the year ended 31 December 2013 attributable to equity shareholders of the Company.

Liquidity and capital resources

The Group principally meets its working capital and other liquidity requirements through operating cash flows and proceeds from bank borrowings. As at 31 December 2013, the Group had current assets of RMB498.8 million (2012: RMB334.7 million), of which bank deposits and cash (including pledged deposits) were RMB143.7 million (2012: RMB79.2 million). To better manage our funds, the Group's cash is generally deposited with banks and denominated mostly in RMB and US$. As at 31 December 2013, total available banking facilities of the Group amounted to RMB489.3 million (2012: RMB196.2 million), banking facilities utilised as at 31 December 2013 were RMB264.7 million (2012: RMB125.7 million) and these bank borrowings were denominated in RMB and US$, among which RMB139.6 million (2012: RMB86.1 million) bears fixed interest rates. The ratio of outstanding bank loans to total assets was 32.8% (2012: 23.5%).

As at 31 December 2013, current ratio[(1)] of the Group was 1.7 (2012: 2.2). Debt-to-equity ratio[(2)] was 25.4% (2012: 12.8%).

(1) Current ratio is the ratio of current assets to current liabilities.

(2) Debt-to-equity ratio is calculated as net debt (i.e. total bank loans less bank deposits) divided by total equity.

Pledge of assets

At 31 December 2013, the Group had pledged its plant and machinery, lease prepayments and buildings held for own use with net book value of RMB114.6 million (2012: RMB80.0 million) and deposits with banks of RMB68.6 million (2012: RMB9.2 million) mainly for the purpose of securing bank loans and financial derivative contracts issued by banks to the Group.

Capital commitment and contingent liabilities

Saved as disclosed in note 25(a) of the consolidated financial statements, there were no significant capital commitments for the Group.

There were no significant contingent liabilities for the Group as at 31 December 2013.

Significant investment, material acquisitions and disposals of subsidiaries, future plans for material investments or acquisition of capital assets

During the year ended 31 December 2013, there was no significant investment, material acquisitions and disposal of subsidiaries by the Group except for the disposal of a subsidiary with no operation and the acquisition of two properties for office premises, research and development centre and product showroom. The Group currently has no other plan to make any substantial investment in or acquisition of capital assets.

Foreign currency risks

The Group's sales are mainly denominated in US$ and RMB while our cost of sales and operating expenses are mainly denominated in RMB. The gross profit margin would be affected if RMB appreciates against US$ as the Group might not be able to reflect the appreciation in selling prices to overseas customers that were determined in US$.

The Group usually manages the fluctuations in the exchange rate of RMB against US$ by purchasing foreign currency forward contracts denominated in US$. As at 31 December 2013, the Group held outstanding US$ denominated forward foreign currency contracts of US$19 million (2012: US$10 million). All the contracts are to be settled within one year. As at 31 December 2013, the Group had an unrealised fair value net gain of approximately RMB1.8 million (2012: RMB0.2 million) from these outstanding forward foreign currency contracts.

With the increasing level of our overseas purchases, the Group also manages the foreign exchange risks by matching the cash inflow from our export sales denominated in US$ with the cash outflow from our import of timber denominated in US$.

Management Discussion and Analysis *(Continued)*

Use of net proceeds from the global offering

The shares of the Company were listed on the Main Board of the Stock Exchange on 6 July 2012. Net proceeds from the global offering were approximately HK$144.3 million (after deducting the underwriting commission and relevant expenses). As at 31 December 2013, the unutilised proceeds were deposited in licensed banks in Hong Kong and the PRC.

	Percentage to total amount	Net proceeds HK$'million	Utilised amount as at 31 December 2013 HK$'million	Unutilised amount as at 31 December 2013 HK$'million
Establishing new production facilities	29.0%	41.8	41.8	–
Establishing own-brand self-operated stores network	27.6%	39.8	19.0	20.8
Merger and acquisition of small to medium sized companies, other timber processing plants, and/or other resources	19.3%	27.9	–	27.9
Own-brand promotion and other marketing events	7.7%	11.1	9.2	1.9
Increasing and enhancing our research and development activities	6.8%	9.8	9.8	–
General working capital	9.6%	13.9	13.9	–
		144.3	93.7	50.6

Human resources

As at 31 December 2013, we employed a total of 534 full time employees in mainly the PRC and Hong Kong which included management staff, product designers, technicians, salespersons and workers. The Group's total expenses on the remuneration of employees for the year ended 31 December 2013 were RMB29.1 million (2012: RMB25.4 million), representing 6.1% (2012: 6.0%) of the turnover of the Group. With the introduction of automated production facilities by the Group during the year ended 31 December 2013, which replaced certain manual processes and enhanced production efficiency. Meanwhile, the Group also offered highly competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees.

Our emolument policies are formulated based on the performance of individual employee which will be reviewed periodically. Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses are also awarded to employees according to the assessment of individual performance. Since the adoption of the share option scheme on 15 June 2012 and up to 31 December 2013, no options have been granted.

Events after the reporting period

Up to the date of this annual report, the Group has no material events after the reporting period.

Corporate Governance Report

The board ("Board") of directors ("Directors") is committed to maintaining a high standard of corporate governance. The Board believes that a high standard of corporate governance will provide a framework for the Company to formulate its business strategies and policies, and manage and lower the associated risks through effective internal control procedures. It will also enhance the transparency of the Company and strengthen the accountability to its shareholders and creditors.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and certain recommended best practices. The Company has complied with all the applicable code provisions in the Code throughout the year ended 31 December 2013 (the "Period") except for the deviations disclosed under the sections headed "The Board" and "The Chairman and the Chief Executive" in this report.

THE BOARD

The Board oversees the management of the business and affairs of the Company. The Directors are accountable for making decisions objectively in the best interest of the shareholders as a whole.

The Board is responsible for making decisions on all major aspects of the Company's affairs, including the approval and monitoring of key policy matters, overall strategies, business plans and annual budgets, internal control and risk management systems, material transactions, major capital expenditure, appointment of Directors and other significant financial and operational matters.

The Board may delegate aspects of its management and administration functions to the management. In particular, the day-to-day management of the Company is delegated to the chief executive officer of the Group, Mr. Wu Zheyan, and his management team.

The Company has throughout the Period met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, accounting or related financial management expertise. At all times during the Period, the independent non-executive Directors represent at least one-third of the Board.

Throughout the Period, the composition of the Board was as follows:

Executive Directors:

Mr. Wu Zheyan
Mr. Wu Qingshan
Ms. Xie Qingmei

Non-executive Director:

Mr. Wu Dongping

Independent non-executive Directors:

Mr. Lam Hin Chi
Prof. Jin Zhongwei
Prof. Su Wenqiang

A description of the Directors is set out in the section headed "Board of Directors and senior management" in this annual report.

The Board is expected to meet regularly and at least four times a year. The Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors.

With respect to regular meetings of the Board, the Directors will be given written notice of the meeting at least 14 days in advance and an agenda with supporting Board papers no less than three days prior to the meeting. For other meetings, the Directors are given as much notice as is reasonable and practicable in the circumstances.

During the Period, the Board convened two meetings:

Name of Directors	Meeting attendance/ number of meetings	Attendance rate (%)
Executive Directors		
Mr. Wu Zheyan *(Chairman)*	2/2	100%
Mr. Wu Qingshan	2/2	100%
Ms. Xie Qingmei	2/2	100%
Non-executive Director		
Mr. Wu Dongping	2/2	100%
Independent non-executive Directors		
Mr. Lam Hin Chi	2/2	100%
Prof. Jin Zhongwei	2/2	100%
Prof. Su Wenqiang	2/2	100%

The Company has deviated from the code provision A.1.1 of the Code as other matters of the Board were dealt with by written resolutions.

CORPORATE GOVERNANCE

The Board has carried out its duties and responsibilities as set out in code provision D.3 in the Code, including the development of policies and practices on corporate governance, monitoring the training and continuous professional development of Directors and senior management, reviewing the compliance with the Code, disclosure in this report and legal and regulatory requirements of the Group.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The chairman of the Board and the chief executive officer is Mr. Wu Zheyan who was appointed as executive Director on 17 October 2011. The Company has deviated from the code provision A.2.1 of the Code. The Board believes that it is necessary to vest the roles of chairman and chief executive officer in the same person due to its unique role. In view of Mr. Wu Zheyan's experience and established market reputation in the industry, and the importance of Mr. Wu Zheyan in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board.

Mr. Wu Zheyan takes the lead in formulating overall strategies and policies of the Company; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices; and encourages and facilitates active contribution of Directors in board activities and constructive relations between executive and non-executive Directors. He also ensures effective communication with shareholders of the Company and receipt by the Directors of adequate and complete information.

Mr. Wu Zheyan, supported by other Board members and the senior management, is also responsible for managing the day-to-day business of the Company. He is also accountable to the Board for the implementation of the Company's overall strategies, and coordination of overall business operations.

DIRECTORS AND DIRECTORS' INDEPENDENCE

As at the date of this report, the Board consists of four non-executive Directors and three executive Directors. Three of the non-executive Directors are independent. Further details of the composition of the Board are disclosed in the section headed "The Board" of this report.

NON-EXECUTIVE DIRECTOR

The non-executive Director is expected to participate in the activities of the Board, particularly in the establishment of a selection process to ensure a mix of competent directors and officers; adoption of a system of internal checks and balances; scrutiny of the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of Board authority is within the powers conferred to the Board under its articles of association ("Articles") and applicable laws, rules and regulations.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance and business. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

Each independent non-executive Director gives the Company an annual confirmation of his independence. The Company considers such Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Each Director, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expense of the Company.

APPOINTMENTS, RE-ELECTION AND ROTATION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 15 June 2012, which may be terminated by not less than three months' notice in writing served by either party on the other. Each of the non-executive Director and the independent non-executive Directors have been appointed for a term of three years commencing from 15 June 2012. None of the Directors has entered into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

Pursuant to the Articles, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. A retiring Director shall be eligible for re-election.

According to the Articles and in the opinion of the Board, Ms. Xie Qingmei, Prof. Jin Zhongwei and Prof. Su Wenqiang shall retire at the forthcoming annual general meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the same meeting.

Where vacancies arise at the Board, candidates will be proposed and put forward to the Board by the Nomination Committee (as defined below) as set out below under the section headed "Nomination Committee" of this report.

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

Remuneration for executive Directors and senior management is determined in accordance with performance, professional experiences and the prevailing market practices. The remuneration of non-executive Directors is subject to regular assessment by the Remuneration Committee (as defined below).

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

According to the code provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of the Directors.

The Directors confirm that they have complied with the relevant code provision. The Company had received from each of the Directors the record of training the Directors received.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry to all the Directors, the Company confirms that all the Directors have complied with the standards as stipulated in the Model Code throughout the Period.

BOARD COMMITTEES

The Board has set up three Board committees, namely, the audit committee, the remuneration committee and the nomination committee (collectively the "Board Committees"), for overseeing particular aspects of the Company's affairs.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Audit Committee comprises all independent non-executive Directors, namely, Mr. Lam Hin Chi, Prof. Jin Zhongwei and Prof. Su Wenqiang. Mr. Lam Hin Chi is the chairman of the Audit Committee.

Under its terms of reference, the Audit Committee shall assist the Board in fulfilling its corporate governance and overseeing responsibilities in relation to financial reporting, internal control structure, risk management systems and internal and external audit functions. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and is tasked with recommending to the Board appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel, records, internal and external auditors, risk assessment and assurance and senior management, as may be appropriate in the discharge of its functions.

During the Period, the Audit Committee discharged its responsibilities by:

(1) making recommendations to the Board on the reappointment of the external auditor and approval of the remuneration and terms of engagement of the external auditor;

(2) monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discussing with the external auditor the nature and scope of the audit and reporting obligations;

(3) implementing the Company's policy on the engagement of an external auditor to supply non-audit services;

(4) reviewing, and monitoring the integrity of, the financial statements of the Company and the Company's interim report to ensure that the information presents a true and balanced assessment of the Company's financial position;

(5) reviewing the Company's financial controls, internal control and risk management systems to ensure that management has discharged its duty to have an effective internal control system;

(6) reviewing the Company's financial and accounting policies and practices;

(7) reviewing the external auditor's management letter, material queries raised by the external auditor to the management, if any, in respect of the accounting records, financial accounts or systems of control and the management's response to such queries; and

(8) reporting to the Board on the matters set out in the Code on the Audit Committee.

The Audit Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary in the performance of its functions. The Audit Committee is provided with sufficient resources by the Company to discharge its duties. The Audit Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, www.merrygardenholdings.com.

During the Period, the Audit Committee convened two meetings:

Name of Directors	Meeting attendance/ number of meetings	Attendance rate (%)
Mr. Lam Hin Chi *(Chairman)*	2/2	100%
Prof. Jin Zhongwei	2/2	100%
Prof. Su Wenqiang	2/2	100%

During the Period and up to the date of this report, the Audit Committee together with management has reviewed the Code, the accounting principles and practices adopted by the Group and discussed the Group's internal control and financial reporting matters, including a review of the annual results for the year ended 31 December 2012 and the interim results for the six months ended 30 June 2013, with recommendation to the Board for approval. The Audit Committee has also recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, KPMG be re-appointed as the external auditors of the Company.

Remuneration Committee

The Remuneration Committee comprises all independent non-executive Directors, namely, Mr. Lam Hin Chi, Prof. Jin Zhongwei and Prof. Su Wenqiang. Prof. Jin Zhongwei is the chairman of the Remuneration Committee.

The major duties of the Remuneration Committee are as follows:

(a) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(c) to make recommendations to the Board of the remuneration of non-executive Directors;

(d) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(e) to review and approve management's remuneration proposals by reference to the Board's corporate goals and objectives;

(f) to review and approve compensation payable to the executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, www.merrygardenholdings.com.

During the Period, the Remuneration Committee convened 1 meeting:

Name of Directors	Meeting attendance/ number of meeting	Attendance rate (%)
Prof. Jin Zhongwei *(Chairman)*	1/1	100%
Mr. Lam Hin Chi	1/1	100%
Prof. Su Wenqiang	1/1	100%

During the Period, the Remuneration Committee has reviewed the remuneration policy and structure of the executive Directors and senior management of the Company, and offered advice on the same to the Board. The Remuneration Committee also resolved to make recommendations to the Board on the remuneration packages of individual executive directors and senior management.

Nomination Committee

The Nomination Committee comprises all independent non-executive Directors, namely, Mr. Lam Hin Chi, Prof. Jin Zhongwei and Prof. Su Wenqiang. Prof. Jin Zhongwei is the chairman of the Nomination Committee.

The major duties of the Nomination Committee are as follows:

(a) to review the structure, size and composition of the Board (including the skills, knowledge and experience) at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of independent non-executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer of the Group.

Where vacancy on the Board exists, the Nomination Committee will carry out a selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations, and select or make recommendations to the Board on the selection of candidates for directorship.

The Nomination Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, www.merrygardenholdings.com.

During the Period, the Nomination Committee convened 1 meeting:

Name of Directors	Meeting attendance/ number of meeting	Attendance rate (%)
Prof. Jin Zhongwei *(Chairman)*	1/1	100%
Mr. Lam Hin Chi	1/1	100%
Prof. Su Wenqiang	1/1	100%

During the Period, the Nomination Committee has reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, conducted performance evaluations to assess whether the non-executive Directors have spent enough time in fulfilling their duties, assessed the independence of independent non-executive Directors, and had been keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace. The Nomination Committee has also adopted the following diversity policy on the Board:

We embrace and encourage our employees' differences in age, color, disability, ethnicity, family or marital status, gender identity or expression, language, national origin, physical and mental ability, political affiliation, race, religion, sexual orientation, socio-economic status, veteran status, and other characteristics that make our directors unique.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company to ensure that these financial statements give a true and fair presentation in accordance with the International Financial Reporting Standards.

The statement by the auditor about their reporting responsibilities is set out in the independent auditor's report on pages 40 to 41.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INDEPENDENT AUDITOR

The Audit Committee reviews and monitors the independent auditor's independence, objectivity and effectiveness of the audit process. It receives each year letter from the independent auditor confirming their independence and objectivity and holds meetings with representatives of the independent auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the independent auditor.

The remuneration paid or payable to the independent auditor of the Company for services for the year ended 31 December 2013 is set out as follows:

	2013 HK$'000
Annual audit services and interim review services	2,000
Tax and other services	85
	2,085

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and assessment and management of risks. In meeting its responsibility, the Board has put in place policies and procedures which provide a framework for the identification and management of risks.

The Directors have reviewed the effectiveness of the Group's internal control system, which covers all material controls, including financial, operational and compliance controls and risk management functions.

In the meeting held on 24 March 2014, the Audit Committee has also reviewed and considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The findings of the Audit Committee have been reported to the Board.

COMPANY SECRETARY

The company secretary of the Company, Mr. Wong Wai Lun, is a full-time employee of the Group. Please refer to his biographical details as set out on page 39 of this annual report.

INVESTOR RELATIONS

There are no significant changes in the Articles and the memorandum of association of the Company during the Period.

Pursuant to article 58 of the Articles, members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

SENDING ENQUIRIES TO THE BOARD AND PROCEDURES FOR PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

Shareholders or investors can contact the Company in the following ways to make enquiry or to provide suggestions:

Contact Person:	Mr. Wong Wai Lun, Company Secretary
Tel:	(852) 3904 1868
Postal Address:	Room 2702, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong

To put forward proposals at a general meeting, the shareholders should submit a written notice of those proposals with detailed contact information to the company secretary of the Company at the Company's principal place of business stated above.

Directors' Report

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of Company is investment holding and the principal activities of its subsidiaries are set out in note 15 to the financial statements.

RESULTS & DIVIDENDS

Results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss on page 42. Other movements in reserves are set out in the consolidated statement of changes in equity on page 47.

On 24 March 2014, the Board recommends HK$0.013 (equivalent to approximately RMB0.0103) per share as a final dividend for the year ended 31 December 2013 (2012: HK$0.013 (equivalent to approximately RMB0.0105)).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 108 of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year ended 31 December 2013 are set out in note 24(c) to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's aggregate amounts of reserves available for distribution were approximately RMB108,340,000 (2012: RMB124,311,000), of which approximately RMB10,317,000 (2012: RMB10,540,000) has been proposed as a final dividend for the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or applicable laws of the Cayman Islands where the Company was incorporated.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment are set out in note 12 to the financial statements.

BANK BORROWINGS AND INTEREST

Details of the Group's bank borrowings are set out in note 22 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2013, the Group's five largest customers accounted for approximately 34.4% (2012: 33.6%) of the Group's total revenue and the Group's largest customer for the year accounted for approximately 8.6% (2012: 9.2%) of the Group's total revenue. The Group's five largest suppliers accounted for approximately 34.6% (2012: 45.4%) of the Group's total purchases, while the largest supplier for the year accounted for approximately 8.3% (2012: 12.8%) of the Group's total purchases.

To the knowledge of the Directors, none of the Directors or their respective associates or any of the shareholders of the Company who owns more than 5% of the Company's issued share capital has any interest in any of the Group's five largest customers or suppliers.

EMPLOYEES

As at 31 December 2013, the Group had 534 (2012: 588) employees in total. The table below shows a breakdown of the Group's employees by their responsibilities:

Management, Finance & Administration	69
Sales & Marketing	40
Design	27
Research & Development	45
Production	327
Quality Control	26
Total	534

Total staff costs for the year ended 31 December 2013 amounted to approximately RMB29,120,000 (2012: RMB25,423,000) and the details are set out in note 6(b) to the financial statements. Remuneration for employees is based upon their qualification, experience, job nature, performance and market condition.

The Group has established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the rules and regulations of the PRC and the existing policy requirements of the local government. The Group also maintains the employee short-term health insurance and unforeseen injury insurance. In addition, the Group provides staff quarters to its employees.

Directors and qualified employees of the Company may be granted share options to subscribe for shares in the Company in accordance with the terms and conditions of the Share Option Scheme (as defined below).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, will be as follows:

Interest in shares

Name of Director	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding interest (%)
Mr. Wu Zheyan	Interest in controlled corporation/ Long position *(Note)*	388,621,200	38.86%
	Beneficial owner/Long position	10,894,000	1.09%
Mr. Wu Qingshan	Beneficial owner/Long position	27,502,800	2.75%
Ms. Xie Qingmei	Beneficial owner/Long position	9,538,000	0.95%

Note: Mr. Wu Zheyan is deemed to be interested in the shares held by Green Seas Capital Limited, his wholly-owned company.

Save as disclosed above, none of the Directors and chief executive of the Company had interests or in short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporation defined under the SFO which would have to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules as at 31 December 2013.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company, or any of its subsidiaries was a party and in which a Director or the Controlling Shareholders (as defined below) of the Company had a material interest, whether directly or indirectly, existed at the end of the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2013, the following persons (other than a director or chief executive of the Company), who had interests or short positions in the shares or the underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Interest in shares

Name	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding interest (%)
Green Seas Capital Limited	Beneficial owner/ Long position *(Note 1)*	388,621,200	38.86%
Hong Kong Investments Group Limited	Beneficial owner/ Long position *(Note 2)*	134,700,000	13.47%
Mr. Cheung Chi Mang	Interest in controlled corporation/ Long position *(Note 2)*	134,700,000	13.47%

Note:

1. The entire issued share capital of Green Seas Capital Limited is legally and beneficially owned by Mr. Wu Zheyan, who is deemed to be interested in the shares held by Green Seas Capital Limited.

2. The entire issued share capital of Hong Kong Investments Group Limited is legally and beneficially owned by Mr. Cheung Chi Mang, who is deemed to be interested in the shares held by Hong Kong Investments Group Limited.

Save as disclosed above, the Directors are not aware of any person, other than the Directors whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, who had an interest or short positions in the shares or underlying shares that were required to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or recorded pursuant to Section 336 of Part XV of the SFO as of 31 December 2013.

SHARE OPTION SCHEME

Pursuant to a resolution passed by all the shareholders on 15 June 2012, the Company has conditionally adopted the share option scheme (the "Share Option Scheme") for the purpose of recognising and acknowledging the contributions the eligible participants had or may have made to the Group. The Board may, at its discretion, grant options pursuant to the Share Option Scheme to the Directors (including executive Directors, non-executive Directors and independent non-executive Directors), the directors of the Company's subsidiaries and employees of the Group and any other persons (including consultants or advisers) whom the Board considers, in its absolute discretion, have contributed or will contribute to the Group. The Directors were authorised to grant options to subscribe for shares of the Company and to allot, issue and deal with the shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme. The maximum number of shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue immediately following completion of the Global Offering (as defined in the Company's prospectus dated 25 June 2012), being 100,000,000 shares, excluding any shares that may be issued under the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company), unless otherwise approved by the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.

Unless otherwise approved by the shareholders of the Company in general meeting, the number of shares that may be granted to an eligible participant under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) shall not exceed 1% of the shares in issue of the Company within any 12-month period. Any grant of options to a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by our independent non-executive Directors. Unless otherwise approved by the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules, the number of shares that may be granted to a substantial shareholder or any independent non-executive Director or their respective associates under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) shall not exceed 0.1% of the shares in issue, having an aggregate value in excess of HK$5 million, within any 12-month period.

There is no minimum period for which an option must be held before it can be exercised, and the period during which an option may be exercised will be determined by the Board in its absolute discretion, however, no options shall be exercised 10 years after they have been granted. The subscription price of a share in respect of a particular option shall be not less than the highest of (a) the official closing price of the shares on the daily quotation sheet of the Stock Exchange; (b) the average official closing price of the shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share. The Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date.

From the date that the Share Option Scheme became effective and unconditional and up to the date of this annual report, no share options were granted under the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of the shares during the year ended 31 December 2013. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2013.

PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of an issuer's total issued share capital must at all times be held by the public. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficiency of public float at all times during the Period.

CONTINUING CONNECTED TRANSACTIONS

The following transactions of the Group constituted non-exempt continuing connected transactions ("Continuing Connected Transactions") for the Company during the Period under the Listing Rules:

Sales to Zhangping Jiupengxi Ecological Tourism Development Company Limited ("Connected party")

Since December 2010, the Group has entered into a series of transactions with Connected party by selling parts and structures of timber villas to Connected party. In order to regulate the said transactions, we have entered into the Agreement for Sale and Purchase of Parts and Structures of Timber Villas with Connected party (木屋構件及休閒家居用品之銷售及採購框架協議) on 15 June 2012 (the "Connected party Agreement"), pursuant to which we shall sell parts and structures of timber villas to Connected party for the three years ending 31 December 2014 at the price to be agreed following arm's length negotiations between the parties with reference to the production costs and the price offered to independent third parties.

It has been expected that the aggregate sales by us under the Connected party Agreement for the year ended 31 December 2013 and the year ending 31 December 2014 will not exceed the annual caps of RMB10 million and RMB8 million respectively.

Our aggregate sales to Connected party were RMB7,323,000 (2012: RMB7,985,000) for the year ended 31 December 2013. For details, please refer to note 26 to the financial statements.

The independent non-executive Directors have reviewed these connected transactions and confirmed that such transactions were:

— entered into in the ordinary and usual course of business of the Group;

— conducted either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and

— in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company, KPMG, have confirmed in a letter to the Board that nothing has come to their attention that caused them to believe that the Continuing Connected Transactions in the year ended 31 December 2013 (i) had not been approved by the Board of the Company, (ii) were not entered into, in all material respects, in accordance with the pricing policies of the Group, (iii) were not entered into, in material respects, in accordance with the relevant agreements governing such transactions, and (iv) had exceeded the cap disclosed in the Company's prospectus dated 25 June 2012.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business are provided under note 26 to the financial statements, and none of which constitutes a discloseable connected transaction as defined under the Listing Rules.

DEED OF NON-COMPETITION

The Company entered into a deed of non-competition (the "Deed of Non-Competition") with Mr. Wu Zheyan and Green Seas Capital Limited (collectively referred to as the "Controlling Shareholders") on 15 June 2012 so as to better safeguard the Group from any potential competition and to formalise the principles for the management of potential conflicts between them and to enhance our corporate governance in connection with the listing of the Company's shares on the Stock Exchange.

The independent non-executive Directors have reviewed compliance by the Controlling Shareholders and confirm that based on confirmations and information provided by each of the Controlling Shareholders, they were in compliance with the Deed of Non-Competition during the Period.

The independent non-executive Directors were not required to review any matter in relation to compliance and enforcement of the Deed of Non-Competition during the Period.

AUDITOR

KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend the Annual General Meeting, the register of members of the Company will be closed from 13 May 2014 to 15 May 2014 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending the Annual General Meeting, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration by not later than 4:30 p.m. on 12 May 2014.

In order to determine the entitlement to the final dividends for the year ended 31 December 2013, the register of members of the Company will be closed from 21 May 2014 to 23 May 2014 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the final dividends for the year ended 31 December 2013, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration by not later than 4:30 p.m. on 20 May 2014.

On behalf of the Board

Wu Zheyan
Chairman

Hong Kong, 24 March 2014

Board of Directors and Senior Management

Biographies of each member of the board of directors and senior management team are set out below:

EXECUTIVE DIRECTORS

Wu Zheyan (吳哲彥) (Mr. Wu), aged 34, is an executive Director, chairman and chief executive officer of the Company. Mr. Wu was appointed as a Director on 17 October 2011. He joined Fujian Zhangping Kimura Forestry Products Co. Ltd ("Zhangping Kimura") as a workshop director since 1997 and obtained knowledge and experiences in the timber products industry including the production process, research and development works and the invention process of new timber products. Mr. Wu became the general manager in May 2000 and the director and legal representative of Zhangping Kimura in January 2006.

Mr. Wu graduated from Sichuan University in June 2009 with a Diploma in business administration (Distance education). Mr. Wu is the visiting professor of Central South University of Forestry and Technology and Fujian Agriculture and Forestry University. Mr. Wu is a son of Mr. Wu Dongping and a nephew of Mr. QS Wu.

Wu Qingshan (吳青山) (Mr. QS Wu), aged 45, was appointed as a Director on 15 June 2012. Mr. QS Wu is currently in charge of marketing and production management for the Group. Mr. QS Wu has over 23 years of experience in timber products enterprise management. Before joining the Group, Mr. QS Wu served as a deputy director of Zhangping Textile Machinery Factory (漳平市紡織器材廠副廠長) from 1993 to 1995 and a technician of Zhangping Xinan Timber Processing Factory (漳平市溪南木材綜合加工廠) from 1986 to 1993. Since the foundation of the Group in 1995, Mr. QS Wu has been a director and a deputy general manager of Zhangping Kimura.

Mr. QS Wu is an uncle of Mr. Wu and a brother-in-law of Mr. Wu Dongping.

Xie Qingmei (謝清美) (Ms. Xie), aged 46, was appointed as a Director on 15 June 2012. Ms. Xie is primarily responsible for procurement matters in respect of the Group. She has over 11 years of experience in corporate management and procurement. Ms. Xie joined the Group in 1999, and she has been a deputy general manager of Zhangping Kimura since 2001 and a director of Zhangping Kimura since 2006. Ms. Xie was in charge of the sales department of Zhangping Kimura as well as supervising procurement from June 1999 to December 2000, and has been running the procurement department of Zhangping Kimura since 2003.

NON-EXECUTIVE DIRECTOR

Wu Dongping (吳冬平), aged 59, is a non-executive Director of the Company since 15 June 2012 and is also the founder of our Group. Mr. Wu Dongping was the chief engineer of Zhangping Kimura from February 2006 to November 2010. Before co-founding the Group, Mr. Wu Dongping was the chairman and the general manager of Zhangping Kimura from December 1995 to January 2006 and the director of Zhangping Textile Machinery Factory in Fujian (福建省漳平市紡織器材廠) from December 1992 to November 1995, respectively. Mr. Wu Dongping has been a member of the Technical Committee of Structural Use of Wood under the National Committee of Standardisation Technology of Timber (全國木材標準化技術委員會結構用木材分技術委員會). He was elected as a member of The 4th Preservation Committee of Wood Industry Institute, Chinese Society of Wood Industry (中國林學會木材工業分會木材研究所保護研究會第四屆委員會) in April 2007 and was elected to the position of vice president of the China Wood Preservation Industry Association (中國木材保護工業協會) in October 2011. Mr. Wu Dongping has over 15 years of experience in the fields of wood processing, preservation and timber structures. Mr. Wu Dongping has participated in, on behalf of our Group, the drafting of two PRC national and forestry industry standards, and has been involved in the reviewing of PRC national and forestry industry standards.

Mr. Wu Dongping is the father of Mr. Wu and the brother-in-law of Mr. QS Wu.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lam Hin Chi (藍顯賜), aged 49, was appointed as an independent non-executive Director of the Company since 15 June 2012. Mr. Lam is a fellow member of The Association of Chartered Certified Accountants, and an associate member of The Chartered Institute of Management Accountants, The Institute of Chartered Accountants in England and Wales and The Hong Kong Institute of Certified Public Accountants, respectively. Mr. Lam graduated from The Hong Kong Polytechnic University with a Professional Diploma in Management Accountancy and a Bachelor of Arts degree (Honours) in Accountancy. Mr. Lam has over 25 years of experience in finance, audit and accounting. Mr. Lam was a senior personnel of a number of companies listed on the Main Board of the Stock Exchange.

Professor Jin Zhongwei (**金重為教授**), aged 76, was appointed as an independent non-executive Director of the Company since 15 June 2012. He is an expert in wood preservation with over 36 years of experience in wood preservation. Professor Jin graduated from Nanjing Forestry College in 1961 and majored in forestry products chemical processing. He studied wood preservation and modification technologies in the United States as a government-appointed scholar from 1981 to 1983, and was a visiting scholar at Oregon State University and Mississippi State University from 1994 to 1995 respectively.

Board of Directors and Senior Management

Professor Su Wenqiang (蘇文強教授), aged 58, was appointed as an independent non-executive Director of the Company since 15 June 2012. Professor Su has more than 30 years of experience in the research of forestry and timber products. Professor Su was awarded as Model Member of the Communist Party (優秀共產黨員) from 2006 to 2007, and was appointed as various positions in timber industry, e.g., council member of Standing Committee of the Heilongjiang Province Chemistry Society (黑龍江省化工學會理事會) (in December 2004), committee member of Wood Science Institute of the Chinese Society of Forestry (中國林學會木材科學分會) (in April 2010), member of Board of Experts of Standardisation Committee of China Timber and Wood Products Distribution Association Wood Preservation Committee (中國木材與木製品流通協會木材防腐專業委員會專家指導委員會) (in December 2009), member of Board of Experts Committee of Standardisation Committee of China Wood Preservation Industry Association (中國木材保護工業協會專家委員會) (in October 2011), committee member of the Wood Preservation Research Committee of the Wood Science Institute of the Chinese Society of Forestry (中國林學會木材科學分會木材保護研究會委員會) (in April 2007) and editor of editorial committee of Biomass Chemical Engineering published by Institute of Chemical Industry of Forest Products (中國林業科學研究院林產化學工業研究所《生物質化學工程》) (in December 2010). Professor Su graduated from Northeast Forestry University in July 1982, major in professional chemical processing of forestry products (林產化學加工工程專業), and obtained a Doctorate Degree in December 2008.

SENIOR MANAGEMENT

Chen Tianfu (陳天福), aged 48, is the chief financial officer of our Group. Since joining our Group in 2009, Mr. Chen has been responsible for our Group's financial management affairs. Prior to joining our Group, Mr. Chen was in charge of the financial departments of Jiangxi Sanhua Real Estate Co. Ltd. (江西三華置業有限公司) and Fujian Dufeng Sugar Factory (福建省度峰糖廠) respectively. Mr. Chen has over 20 years of experience in corporate financial management and possesses the qualifications of an accountant in the PRC. Mr. Chen graduated from Fujian Quanzhou Supply and Sales School (福建省泉州供銷學校) in 1986 majoring in financial accounting with a secondary vocational school diploma.

Wong Wai Lun (黃偉倫), aged 30, joined our Group in January 2014, is the group financial controller of our Group and the company secretary of the Company. Mr. Wong is responsible for our Group's accounting and financial management. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and has over eight years of experience in the field of accounting and auditing services. Prior to joining our Group, Mr. Wong was an audit manager of KPMG. Mr. Wong obtained a Bachelor Degree in Commerce from the University of Queensland, Australia in 2004.

Independent Auditor's Report

Independent auditor's report to the shareholders of
Merry Garden Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Merry Garden Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 42 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 March 2014

Consolidated Statement of Profit or Loss

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Turnover	*4*	475,051	421,171
Cost of sales		(323,317)	(272,461)
Gross profit		151,734	148,710
Other revenue	*5(a)*	23,070	11,761
Other net gain/(loss)	*5(b)*	48,683	(780)
Selling and distribution expenses		(13,818)	(10,146)
Administrative expenses		(46,979)	(47,169)
Profit from operations		162,690	102,376
Finance costs	*6(a)*	(5,463)	(5,620)
Profit before taxation	*6*	157,227	96,756
Income tax	*7(a)*	(32,806)	(16,665)
Profit for the year		124,421	80,091
Earnings per share			
Basic and diluted (RMB)	*11*	0.12	0.09

The notes on pages 49 to 107 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 24(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013
(Expressed in Renminbi)

	2013 RMB'000	2012 RMB'000
Profit for the year	124,421	80,091
Other comprehensive income for the year, net of tax		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside the PRC, net of nil tax	1,050	1,167
Total comprehensive income for the year	125,471	81,258

The notes on pages 49 to 107 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	*12*	198,303	127,134
Lease prepayments	*13*	51,307	64,179
Non-current prepayments for acquisitions of property, plant and equipment	*12(b)*	51,302	1,090
Other financial assets	*14*	2,495	2,495
Deferred tax assets	*16(b)*	4,821	6,172
		308,228	201,070
Current assets			
Inventories	*17*	191,709	72,252
Current portion of lease prepayments	*13*	1,096	1,368
Trade and other receivables	*18*	162,372	181,891
Pledged deposits	*19*	68,601	9,151
Cash and cash equivalents	*20(a)*	75,052	70,041
		498,830	334,703
Current liabilities			
Trade and other payables	*21*	23,937	12,810
Bank loans	*22*	239,651	125,682
Current portion of deferred income	*23*	1,179	1,295
Current taxation	*16(a)*	20,517	10,015
		285,284	149,802
Net current assets		213,546	184,901

Consolidated Statement of Financial Position *(Continued)*

At 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Total assets less current liabilities		521,774	385,971
Non-current liabilities			
Bank loans	*22*	25,097	–
Non-current portion of deferred income	*23*	18,314	22,670
Deferred tax liabilities	*16(b)*	1,191	1,060
		44,602	23,730
NET ASSETS		477,172	362,241
CAPITAL AND RESERVES			
Capital	*24(c)*	8,135	8,135
Reserves		469,037	354,106
TOTAL EQUITY		477,172	362,241

Approved and authorised for issue by the board of directors on 24 March 2014.

Wu Zheyan	Wu Qingshan
Chairman	*Director*

The notes on pages 49 to 107 form part of these financial statements.

Statement of Financial Position

At 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Investments in subsidiaries	*15*	117,306	133,201
Current assets			
Other receivables	*18*	301	342
Cash and cash equivalents	*20(a)*	47	119
		348	461
Current liabilities			
Other payables	*21*	1,179	1,216
Net current liabilities		(831)	(755)
NET ASSETS		116,475	132,446
CAPITAL AND RESERVES	*24(a)*		
Capital		8,135	8,135
Reserves		108,340	124,311
TOTAL EQUITY		116,475	132,446

Approved and authorised for issue by the board of directors on 24 March 2014.

Wu Zheyan
Chairman

Wu Qingshan
Director

The notes on pages 49 to 107 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company					
	Share capital RMB'000 *(note 24(c))*	Share premium RMB'000 *(note 24(d)(i))*	Exchange reserve RMB'000 *(note 24(d)(ii))*	Statutory reserve RMB'000 *(note 24(d)(iii))*	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2012	8	–	1,864	14,974	129,748	146,594
Changes in equity for 2012:						
Profit for the year	–	–	–	–	80,091	80,091
Other comprehensive income	–	–	1,167	–	–	1,167
Total comprehensive income	–	–	1,167	–	80,091	81,258
Issue of shares upon initial public offering, net of issuing costs	1,464	132,925	–	–	–	134,389
Capitalisation issue	6,663	(6,663)	–	–	–	–
Appropriations to statutory reserve	–	–	–	9,638	(9,638)	–
	8,127	126,262	–	9,638	(9,638)	134,389
Balance at 31 December 2012 and 1 January 2013	8,135	126,262	3,031	24,612	200,201	362,241
Changes in equity for 2013:						
Profit for the year	–	–	–	–	124,421	124,421
Other comprehensive income	–	–	1,050	–	–	1,050
Total comprehensive income	–	–	1,050	–	124,421	125,471
Dividends approved and paid in respect of the previous year	–	(10,540)	–	–	–	(10,540)
Appropriations to statutory reserve	–	–	–	14,162	(14,162)	–
	–	(10,540)	–	14,162	(14,162)	(10,540)
Balance at 31 December 2013	8,135	115,722	4,081	38,774	310,460	477,172

The notes on pages 49 to 107 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Operating activities			
Cash generated from/(used in) operations	*20(b)*	33,988	(11,141)
Income tax paid		(20,822)	(22,746)
Net cash generated from/(used in) operating activities		13,166	(33,887)
Investing activities			
Payment for the purchase of property, plant and equipment		(136,076)	(50,733)
Payment for lease prepayments		–	(27,720)
Receipt of government grants to subsidise capital expenditure		–	6,849
Interest received		833	571
Consideration received from land resumption		62,390	–
Proceeds of disposal of land use right		4,085	–
Proceeds for disposal of property, plant and equipment		3	25
Net cash used in investing activities		(68,765)	(71,008)
Financing activities			
Proceeds from new bank loans		555,521	186,907
Repayments of bank loans		(416,455)	(147,022)
Increase in pledged deposits		(59,450)	–
Interest paid		(8,495)	(7,071)
Dividend paid to equity shareholders of the company		(10,540)	–
Changes in amount due to the Ultimate Controlling Shareholder		–	(443)
Net proceeds from issue of shares upon initial public offering, net of issuing costs		–	134,389
Net cash generated from financing activities		60,581	166,760
Net increase in cash and cash equivalents		4,982	61,865
Cash and cash equivalents at 1 January		70,041	8,202
Effect of foreign exchange rate changes		29	(26)
Cash and cash equivalents at 31 December	*20(a)*	75,052	70,041

The notes on pages 49 to 107 form part of these financial statements.

1 GENERAL INFORMATION

Merry Garden Holdings Limited (the "Company") was incorporated in the Cayman Islands on 17 October 2011 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company was listed on the Stock Exchange on 6 July 2012.

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements were authorised for issue by the Directors on 24 March 2014.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

These consolidated financial statements are presented in RMB, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated at their fair value (see note 2(f)).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— Amendments to IAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*

— IFRS 10, *Consolidated financial statements*

— IFRS 12, *Disclosure of interests in other entities*

— IFRS 13, *Fair value measurement*

— Amendments to IFRS 7, *Financial instruments: Disclosures — Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended IFRSs are discussed below:

Amendments to IAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

IFRS 10, *Consolidated financial statements*

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 15.

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 27. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Amendments to IFRS 7, *Financial instruments: Disclosures — Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7 during the periods presented.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends earned on these investments.

Investments in equity securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the consolidated statement of financial position at cost less impairment losses (see note 2(j)). Dividend income from equity securities are recognised in profit or loss in accordance with the policies set out in note 2(t)(v).

When the investments are derecognised or impaired (see note 2(j)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(v)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment *(Continued)*

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over the estimated useful lives as follows:

— Buildings	The shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion
— Leasehold improvement	Over the unexpired term of lease but no more than 5 years
— Plant and machinery	10 years
— Furniture, fittings and equipment	5 years
— Motor vehicles	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(j)(ii)). Cost comprises direct costs of construction and installation during the construction period. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of the construction in progress until it is substantially completed and ready for its intended use.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Leased assets *(Continued)*

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(j) Impairment of assets

(i) Impairment of trade and other receivables and investment in equity securities

Trade and other receivables and investment in equity securities that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(i) Impairment of trade and other receivables and investment in equity securities (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For other receivables carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated recoverable amount.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— lease prepayments;

— non-current prepayments for acquisitions of property, plant and equipment; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(t)(ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Construction contracts *(Continued)*

Construction contracts in progress at the end of each reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the consolidated statement of financial position as the "Gross amount due from customers for contract work" (as an asset) under "Trade and other receivables" or the "Gross amount due to customers for contract work" (as a liability) under "Trade and other payables", as applicable. Progress billings not yet paid by the customer are included under "Trade and other receivables". Amounts received before the related work is performed are presented as "Receipts in advance" under "Trade and other payables".

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(j)(i)).

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using an effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) Interest income

Interest income from bank deposits is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. An unconditional government grant is recognised in profit or loss as other revenue when the grant becomes receivable.

(v) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations with functional currency other than Renminbi are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than Renminbi, the cumulative amount of the exchange differences relating to that operation with functional currency other than Renminbi is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third party and the other entity is an associate of the same third party or vice versa.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly-controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Key sources of estimation uncertainty

The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or changes in market conditions. Management reassesses these estimations at the end of the reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(ii) Impairment of trade receivables

Management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassesses the impairment of trade receivables at the end of the reporting period.

(iii) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iv) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of these transactions are reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets, if any, are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

4 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are manufacturing and sales of outdoor wooden products, engaged in projects of outdoor wooden products including the provision of design and installation services, and retail sales of outdoor wooden products through self-operated retail shops.

Turnover represents

(i) the sales value of goods sold to customers less returns, discounts, and value added taxes and other sales tax; and

(ii) contract revenue derived from projects of outdoor wooden products including the provision of design and installation services.

The amount of each significant category of revenue recognised in turnover is analysed as follows:

	2013 RMB'000	2012 RMB'000
Trading of outdoor wooden products	465,826	405,534
Retail sales of wooden products	8,360	7,178
Contract revenue derived from projects of outdoor wooden products including the provision of design and installation services	865	8,459
	475,051	421,171

No individual external customers accounted for 10% or more of the Group's revenue for the years ended 31 December 2013 and 2012.

Details of concentrations of credit risk arising from these customers are set out in note 27(a). Further details regarding the Group's principal activities are disclosed below.

4 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting

In a manner consistent with how the Group manages its business and the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified three reportable segments, namely Manufacturing and trading of wooden products, Retail business and Projects of outdoor wooden products. No operating segments have been aggregated to form the above reportable segments.

— Manufacturing and trading of wooden products: manufacturing and sales of outdoor wooden products to both domestic and overseas customers, and trading of timber log.

— Retail business: retail sales of outdoor wooden products through self-operated retail shops.

— Projects of outdoor wooden products: engaged in projects of outdoor wooden products including the provision of design and installation services to domestic customers.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Reportable segment revenue represents the revenue derived from the Group's external customers by manufacturing and trading of wooden products, Retail business and Projects of outdoor wooden products, respectively.

The measure used for reportable segment profit/(loss) is "profit/(loss) after taxation" of Manufacturing and trading of wooden products, Retail business and Projects of outdoor wooden products, respectively.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

4 TURNOVER AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below:

	2013			
	Manufacturing and trading of wooden products RMB'000	Retail business RMB'000	Projects of outdoor wooden products RMB'000	Total RMB'000
Revenue derived from the Group's external customers	465,830	8,356	865	475,051
Inter-segment revenue	5,984	–	–	5,984
Reportable segment revenue	471,814	8,356	865	481,035
Reportable segment profit/(loss) (profit/(loss) after taxation)	134,433	(4,384)	(193)	129,856

	2012			
	Manufacturing and trading of wooden products RMB'000	Retail business RMB'000	Projects of outdoor wooden products RMB'000	Total RMB'000
Revenue derived from the Group's external customers	405,534	7,178	8,459	421,171
Inter-segment revenue	10,817	–	–	10,817
Reportable segment revenue	416,351	7,178	8,459	431,988
Reportable segment profit (profit after taxation)	81,295	908	368	82,571

4 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(ii) Reconciliations of reportable segment revenue and reportable segment profit

	2013 RMB'000	2012 RMB'000
Revenue		
Reportable segment revenue	481,035	431,988
Elimination of inter-segment revenue	(5,984)	(10,817)
Consolidated turnover	475,051	421,171
Profit		
Reportable segment profit derived from the Group's external customers	129,856	82,571
Elimination of inter-segment profits	(1,885)	(682)
Unallocated head office and corporate expenses	(3,550)	(1,798)
Consolidated profit after taxation	124,421	80,091

(iii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods were delivered or the services were provided.

	2013 RMB'000	2012 RMB'000
The PRC (place of domicile)	231,616	259,779
North America	165,141	100,127
Europe	30,205	37,016
Asia Pacific (exclusive of the PRC)	48,089	24,249
	243,435	161,392
	475,051	421,171

5 OTHER REVENUE AND OTHER NET GAIN/(LOSS)

(a) Other revenue

	2013 RMB'000	2012 RMB'000
Interest income on bank deposits	833	571
Government subsidies	22,237	11,190
	23,070	11,761

The Group received unconditional government subsidies of RMB17,765,000 (2012: RMB10,217,000) for the year ended 31 December 2013. These government subsidies were granted to Fujian Zhangping Kimura Forestry Products Co, Ltd. ("Zhangping Kimura") for subsidising various expenses already incurred and were recognised as other revenue when they became receivable.

The Group recognised government subsidies as deferred income which compensates the Group for the cost of its land use right and the cost of infrastructure development. Government subsidies (deferred income) of RMB4,472,000 (2012: RMB973,000) were recognised as other revenue for the year ended 31 December 2013, which is on a systematic basis over the useful life of the relevant assets (note 23).

(b) Other net gain/(loss)

	2013 RMB'000	2012 RMB'000
Gain from land resumption (note)	44,802	–
Net foreign exchange gain/(loss)	2,722	(316)
Net gain on disposal of land use right	146	–
Net (loss)/gain on disposal of property, plant and equipment	(4)	19
Changes in fair value of derivative financial instruments	1,629	(85)
Others	(612)	(398)
	48,683	(780)

Note: On 8 March 2013, Zhangping Kimura entered into a land resumption agreement with Zhangping Land Reserve Centre, an administrative body of the local government authority at Zhangping, Fujian province in relation to the land resumption of eight parcels of land at Fushan Industrial Zone (the "Land") for a consideration of RMB62,390,000 (the "Consideration"). Upon the completion of the land resumption transaction in July 2013, the Group recognised a gain of RMB44,802,000, which represented the Consideration received less the aggregate carrying value of the Land and immovable structures erected on the Land totalling RMB17,588,000 (see notes 12 and 13).

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2013 RMB'000	2012 RMB'000
Interest expense on bank loans wholly repayable within five years	8,495	7,071
Less: Interest expense capitalised into construction in progress*	(3,032)	(1,451)
	5,463	5,620

* The borrowing costs have been capitalised at a rate of 4.14% (2012: 7.27%) per annum for the year ended 31 December 2013.

(b) Staff costs

	2013 RMB'000	2012 RMB'000
Salaries, wages and other benefits	24,896	22,850
Contributions to defined contribution retirement schemes	4,224	2,573
	29,120	25,423

Pursuant to the relevant labour rules and regulations in the PRC, the Group's entities in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the years ended 31 December 2013 and 2012. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

6 PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	2013 RMB'000	2012 RMB'000
Cost of inventories *(note 17(b))*#	323,317	272,461
Depreciation of property, plant and equipment	10,142	6,002
Amortisation of lease prepayments	1,337	920
Operating lease charges for properties	2,090	388
Research and development costs	19,572	16,280
Auditors' remuneration	1,597	5,288

Cost of inventories includes RMB28,749,000 (2012: RMB24,333,000) for the year ended 31 December 2013 relating to staff costs, depreciation and research and development costs, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2013 RMB'000	2012 RMB'000
Current tax — PRC corporate income tax		
Provision for the year	30,803	16,962
Withholding tax — the PRC		
Dividend withholding tax	521	–
Deferred tax		
Origination and reversal of temporary differences *(note 16(b))*	1,482	(297)
	32,806	16,665

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2013 RMB'000	2012 RMB'000
Profit before taxation	157,227	96,756
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned *(note (i))*	41,197	25,881
Effect of PRC tax concession *(note (ii))*	(9,776)	(11,218)
PRC dividend withholding tax *(note (iv))*	131	1,060
Effect of non-deductible expenses	3,004	2,981
Effect of research and development expense bonus deduction *(note (iii))*	(1,750)	(2,039)
Actual tax expense	32,806	16,665

Notes:

(i) The Group's PRC subsidiaries are subject to PRC corporate income tax at the statutory rate of 25% unless otherwise specified.

Taxation for subsidiaries in other jurisdictions is charged at the appropriate current rates of taxation ruling in relevant jurisdictions respectively.

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2013 and 2012.

(ii) Zhangping Kimura applied and was approved for the High and New Technology Enterprise ("HNTE") qualification under the PRC Corporate Income Tax Law and its relevant regulations during 2013, and therefore is entitled to the preferential income tax rate of 15% for a period of three years from 2013 to 2015.

(iii) According to the PRC Corporate Income Tax Law and its relevant regulations, qualified research and development expenses are subject to income tax deductions at 150% on the amount actually incurred.

(iv) According to the PRC Corporate Income Tax Law and its relevant regulations, dividends receivable by non-PRC resident corporate investors from PRC resident enterprises are subject to withholding income tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Under the tax arrangement between the Mainland of China and Hong Kong Special Administrative Region and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds a 25% equity interest or more of a PRC enterprise is entitled to a reduced tax rate of 5%. The Group's subsidiary in Hong Kong is a qualified Hong Kong tax resident and therefore entitled a reduced withholding tax rate of 5%.

Since the Group can control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC, deferred tax liabilities are only recognised to the extent that such profits are expected to be distributed through dividend payment by the Group's PRC subsidiaries in the foreseeable future. As at 31 December 2013, deferred tax liabilities not recognised relating to the undistributed profits of the Group's PRC subsidiaries to overseas holding company amounted to RMB204,336,000 (2012: RMB154,111,000).

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2013				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Wu Zheyan	360	–	–	7	367
Wu Qingshan	216	–	–	7	223
Xie Qingmei	144	–	–	7	151
	720	–	–	21	741
Non-executive director					
Wu Dongping	144	–	–	7	151
Independent non-executive directors					
Lam Hin Chi	98	–	–	–	98
Jin Zhongwei	98	–	–	–	98
Su Wenqiang	98	–	–	–	98
	294	–	–	–	294
	1,158	–	–	28	1,186

8 DIRECTORS' REMUNERATION *(Continued)*

	2012				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Wu Zheyan	180	135	50	7	372
Wu Qingshan	108	49	40	7	204
Xie Qingmei	72	42	40	7	161
	360	226	130	21	737
Non-executive director					
Wu Dongping	72	72	–	7	151
Independent non-executive directors					
Lam Hin Chi	48	–	–	–	48
Jin Zhongwei	49	–	–	–	49
Su Wenqiang	49	–	–	–	49
	146	–	–	–	146
	578	298	130	28	1,034

During the years ended 31 December 2013 and 2012, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2013 and 2012.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2012: four) are directors for the year ended 31 December 2013, whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2012: one) individuals are as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other emoluments	1,792	440
Retirement scheme contributions	10	10
	1,802	450

The emoluments of the two individuals (2012: one individual) with the highest emoluments are within the following bands:

	2013 Number of individuals	2012 Number of individuals
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$1,500,000	1	–
	2	1

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company include a loss of RMB1,757,000 (2012: RMB1,518,000) which has been dealt with in the financial statements of the Company.

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2013 is based on the profit attributable to equity shareholders of the Company of RMB124,421,000 (2012: RMB80,091,000) and weighted average of 1,000,000,000 shares (2012: 910,000,000 shares) in issue during the year ended 31 December 2013, calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2013	2012
	'000	'000
Issued ordinary shares at 1 January	1,000,000	10
Effect of issue of shares upon subdivision *(note 24(c)(ii))*	–	990
Effect of capitalisation issue *(note 24(c)(v))*	–	819,000
Effect of issue of shares upon initial public offering *(note 24(c)(v))*	–	90,000
Weighted average number of ordinary shares at 31 December	1,000,000	910,000

The weighted average number of shares in issue during the year ended 31 December 2012 was based on the assumption that the 820,000,000 shares before the listing of shares on the Stock Exchange were in issue, as if such shares had been outstanding throughout the year ended 31 December 2012.

There were no potential dilutive ordinary shares during the years ended 31 December 2013 and 2012 and, therefore, diluted earnings per share are the same as the basic earnings per share.

12 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2012	61,002	–	16,826	2,727	3,045	431	84,031
Additions	723	2,538	7,716	454	1,959	47,741	61,131
Transfers	6,044	–	609	–	–	(6,653)	–
Disposals	–	–	–	–	(98)	–	(98)
At 31 December 2012	67,769	2,538	25,151	3,181	4,906	41,519	145,064
At 1 January 2013	67,769	2,538	25,151	3,181	4,906	41,519	145,064
Additions	3,033	1,047	27,100	1,136	1,174	57,548	91,038
Transfers	84,857	–	3,124	–	–	(87,981)	–
Disposals in respect of land resumption *(note 5(b))*	(9,474)	–	(3,558)	(851)	–	–	(13,883)
Disposals	–	–	–	–	(235)	–	(235)
At 31 December 2013	146,185	3,585	51,817	3,466	5,845	11,086	221,984
Accumulated depreciation:							
At 1 January 2012	5,744	–	3,408	1,030	1,838	–	12,020
Charge for the year	3,173	137	1,793	424	475	–	6,002
Written back on disposals	–	–	–	–	(92)	–	(92)
At 31 December 2012	8,917	137	5,201	1,454	2,221	–	17,930
At 1 January 2013	8,917	137	5,201	1,454	2,221	–	17,930
Charge for the year	3,893	1,556	3,639	440	614	–	10,142
Written back on disposals in respect of land resumption *(note 5(b))*	(2,395)	–	(1,531)	(309)	–	–	(4,235)
Written back on disposals	–	–	–	–	(156)	–	(156)
At 31 December 2013	10,415	1,693	7,309	1,585	2,679	–	23,681
Net book value:							
At 31 December 2013	135,770	1,892	44,508	1,881	3,166	11,086	198,303
At 31 December 2012	58,852	2,401	19,950	1,727	2,685	41,519	127,134

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Buildings which are held for own use are situated in the PRC. At 31 December 2013, buildings with net book value of RMB52,784,000 (2012: RMB29,371,000) and plant and machinery with net book value of RMB9,413,000 (2012: RMB12,644,000) were pledged to banks for certain banking facilities granted to the Group (see note 22(c)).

(b) Non-current prepayments for acquisitions of property, plant and equipment

In February 2013, Zhangping Kimura entered into an agreement (the "Agreement") with the developer of Fushan Industrial Zone which is authorised by the relevant land authorities (the "Developer"). Pursuant to the Agreement, the Developer granted Zhangping Kimura the right to commence dwelling and levelling activities on a piece of land in Zone C of the Group's manufacturing complex of approximately 66,270 square meters ("Zone C").

The Group has incurred dwelling and levelling costs on Zone C of approximately RMB27,240,000 (2012: RMB Nil) at 31 December 2013 which amount is included as non-current prepayments for acquisition of property, plant and equipment in the consolidated statement of financial position. Pursuant to the Agreement, dwelling and levelling costs would be repaid in full by the Developer to the Group in case the Group fails to obtain the land use right through the land auction procedure. At 31 December 2013, since the land auction procedure has not been commenced by the relevant land authorities, the Group is unable to enter into the procedure for procuring the relevant land use right certificate of Zone C. The costs will be capitalised as lease prepayments when the land use right certificate is obtained.

On 22 July 2013, Zhangping Kimura entered into an agreement (the "Acquisition Agreement") with an independent third party (the "Vendor") for the purchase of a property located at No. 996, Dong Huan Road, Jing Cheng Street, Zhangping City, Fujian province (the "Property") for a consideration of RMB46,500,000. Zhangping Kimura paid RMB23,250,000 to the Vendor on the same date as a deposit pursuant to the terms of the Acquisition Agreement. The remaining portion of the consideration will be paid to the Vendor at different stages after the completion of the construction of the Property.

13 LEASE PREPAYMENTS

	The Group	
	2013	2012
	RMB'000	RMB'000
Cost:		
At 1 January	67,901	40,181
Addition	–	27,720
Disposals in respect of land resumption *(note 5(b))*	(9,246)	–
Disposal	(4,050)	–
At 31 December	54,605	67,901
Accumulated amortisation:		
At 1 January	2,354	1,434
Charge for the year	1,337	920
Written back on disposals in respect of land resumption *(note 5(b))*	(1,306)	–
Written back on disposal	(183)	–
At 31 December	2,202	2,354
Net book value:		
At 31 December	52,403	65,547
Represented by:		
Current portion	1,096	1,368
Non-current portion	51,307	64,179
	52,403	65,547

The lease prepayments represent costs of obtaining the land use rights in respect of land located in the PRC and the capitalised costs relating to dredging and leveling of land. These leases expire between 2047 and 2062.

At 31 December 2013, land use rights with an aggregate carrying amount of RMB52,403,000 (2012: RMB37,937,000) were pledged as securities for certain banking facilities granted to the Group (see note 22(c)).

14 OTHER FINANCIAL ASSETS

	The Group	
	2013	2012
	RMB'000	RMB'000
Available-for-sale equity securities:		
Unlisted equity securities, at cost	2,495	2,495

The above financial assets represent investment in equity securities of a PRC local bank in Zhangping City, Fujian Province.

15 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2013	2012
	RMB'000	RMB'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	117,306	133,201
	117,306	133,201

The investment cost represented the investment in Green Oceans Investment Holdings Limited of 10 United States Dollars ("USD").

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The directors regard amounts due from subsidiaries as non-current assets and as "interests in subsidiaries" as they do not intend to request repayment of these amounts from the subsidiaries within 12 months of the end of the reporting period.

(Expressed in Renminbi unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries are set out below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Particulars of issued and paid up/registered capital	Attributable equity interest held by the Company Direct	Attributable equity interest held by the Company Indirect	Principal activities
Green Oceans Investment Holdings Limited ("Green Oceans")	The British Virgin Islands ("BVI") 7 November 2011	10 shares of USD1 each	100%	–	Investment holding
King Wood (Hong Kong) Holding Limited ("King Wood")	Hong Kong 5 August 2010	10,000 shares of Hong Kong Dollars ("HK$") 1 each	–	100%	Sales of outdoor wooden products
Zhangping Kimura 福建省漳平木村林產有限公司 *(notes (i), (iii) and (iv))*	The PRC 17 December 1995	Registered capital of RMB180,000,000	–	100%	Manufacture and sales of outdoor wooden products
Zhangping Kimura Merry Garden Wooden Structure Design and Installation Co., Ltd. 漳平市木村美麗家園木結構設計安裝有限公司*(notes (ii) and (iii))*	The PRC 12 June 2010	Registered capital of RMB1,000,000	–	100%	Engaged in projects of outdoor wooden products including the provision of design and installation services
Merry Garden (Shanghai) Household Co., Ltd. 美麗家園(上海)家居有限公司 *(notes (ii) and (iii))*	The PRC 24 February 2012	Registered capital of RMB1,000,000	–	100%	Retail sales of outdoor wooden products through self-operated retail shops
Merry Garden (Xiamen) Household Co., Ltd. 美麗家園(廈門)家居有限公司 *(notes (ii) and (iii))*	The PRC 14 November 2012	Registered capital of RMB5,000,000	–	100%	Retail sales of outdoor wooden products through self-operated retail shops
Merry Garden (Fuzhou) Household Co., Ltd. 美麗家園(福州)家居有限公司 *(notes (ii) and (iii))*	The PRC 5 December 2012	Registered capital of RMB500,000	–	100%	Retail sales of outdoor wooden products through self-operated retail shops

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ establishment	Particulars of issued and paid up/registered capital	Attributable equity interest held by the Company Direct	Indirect	Principal activities
Merry Garden (Sanming) Household Co., Ltd. 美麗家園(三明)家居有限公司 *(notes (ii) and (iii))*	The PRC 19 December 2012	Registered capital of RMB500,000	–	100%	Retail sales of outdoor wooden products through self-operated retail shops
Merry Garden (US) Inc.	The United States of America 10 January 2013	100 share of USD1 each	–	100%	Sales of outdoor wooden products
Zhangping Merry Garden Import and Export Co. Ltd. 漳平市美麗家園進出口有限公司 *(note (ii) and (iii))*	The PRC 27 February 2013	Registered capital of RMB5,000,000	–	100%	Sales of outdoor wooden products

Notes:

(i) This entity is a wholly foreign-owned enterprise established in the PRC.

(ii) These entities are limited liability companies established in the PRC and are wholly-owned subsidiaries of Zhangping Kimura.

(iii) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(iv) The paid up capital of Zhangping Kimura as at 31 December 2013 was RMB130,000,000. King Wood, a wholly-owned subsidiary of the Company, is committed to contribute the remaining unpaid registered capital of RMB50,000,000 of Zhangping Kimura on or before 2 July 2014.

16 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group

(a) Current taxation in the consolidated statement of financial position represents:

	2013 RMB'000	2012 RMB'000
At 1 January	10,015	15,799
Charged to profit or loss	31,324	16,962
PRC corporate income tax paid	(20,822)	(22,746)
At 31 December	20,517	10,015

16 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

The Group *(Continued)*

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred income RMB'000	Unrealised profits on inventories RMB'000	Unrealised gain on derivative financial instruments RMB'000	PRC dividend withholding tax RMB'000	Total RMB'000
Deferred tax arising from:					
At 1 January 2012	4,522	338	(45)	–	4,815
Credited/(charged) to profit or loss *(note 7(a))*	1,468	(124)	13	(1,060)	297
At 31 December 2012	5,990	214	(32)	(1,060)	5,112
At 1 January 2013	5,990	214	(32)	(1,060)	5,112
(Charged)/credited to profit or loss *(note 7(a))*	(1,117)	12	(246)	(131)	(1,482)
At 31 December 2013	4,873	226	(278)	(1,191)	3,630

Reconciliation to consolidated statement of financial position:

	The Group 2013 RMB'000	The Group 2012 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	4,821	6,172
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,191)	(1,060)
	3,630	5,112

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	The Group 2013 RMB'000	The Group 2012 RMB'000
Raw materials	82,925	33,115
Work in progress	26,843	14,894
Finished goods	81,941	24,243
	191,709	72,252

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group 2013 RMB'000	The Group 2012 RMB'000
Carrying amount of inventories sold	323,317	272,461

18 TRADE AND OTHER RECEIVABLES

	The Group 2013 RMB'000	The Group 2012 RMB'000	The Company 2013 RMB'000	The Company 2012 RMB'000
Trade receivables	103,712	133,935	–	–
Prepayments for raw materials	27,847	39,895	–	–
Deposits and other prepayments	1,661	900	–	–
Amount due from a related company *(note 26(c))*	6,155	724	–	–
Derivative financial instruments *(note 27(d))*	2,071	220	–	–
Gross amount due from customers for contract work *(note (i))*	3,040	3,139	–	–
VAT recoverable	16,291	810	–	–
Other receivables	1,595	2,268	301	342
	162,372	181,891	301	342

18 TRADE AND OTHER RECEIVABLES *(Continued)*

Note:

(i) The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from customers for contract work at 31 December 2013 was RMB19,477,000 (2012: RMB12,029,000). This balance includes retention receivables at 31 December 2013 of RMB1,533,000 (2012: RMB1,137,000), of which RMB337,000 (2012: RMB292,000) was expected to be recovered after more than one year.

All of the trade and other receivables, apart from those balances specified in (i) above, are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

As at 31 December 2013, the ageing analysis of trade receivables (which are included in trade and other receivables), based on invoice date and net of allowances of doubtful debts, is as follows:

	The Group	
	2013 RMB'000	2012 RMB'000
Within 1 month	61,437	63,586
1 to 2 months	18,758	21,675
2 to 3 months	12,446	17,513
Over 3 months	11,071	31,161
	103,712	133,935

Trade receivables are normally due within 15 to 90 days from the date of billing. Further details of the Group's credit policy are set out in note 27(a).

18 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Trade debtors that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Current	91,609	100,151
Less than 1 month past due	11,948	12,811
1 to 3 months past due	3	15,654
More than 3 months but less than 12 months past due	–	5,251
More than 12 months past due	152	68
Amounts past due	12,103	33,784
	103,712	133,935

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

19 PLEDGED DEPOSITS

Pledged deposits with banks have been placed as security for banking facilities and derivative financial instruments issued by banks to the Group (see note 18 and note 22(c)).

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow comprise:

	The Group 2013 RMB'000	The Group 2012 RMB'000	The Company 2013 RMB'000	The Company 2012 RMB'000
Deposits with banks and other financial institutions	49,000	27,900	–	–
Cash at bank and in hand	26,052	42,141	47	119
	75,052	70,041	47	119

At 31 December 2013, cash and cash equivalents in the amount of RMB70,804,000 (2012: RMB57,562,000) are denominated in RMB and are deposited in the PRC in the ordinary course of business. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

	Note	The Group 2013 RMB'000	The Group 2012 RMB'000
Profit before taxation		157,227	96,756
Adjustments for:			
Interest expense	*6(a)*	5,463	5,620
Depreciation	*6(c)*	10,142	6,002
Amortisation of lease prepayments	*6(c)*	1,337	920
Amortisation of deferred income	*23*	(4,472)	(973)
Net foreign exchange loss/(gain)		1,000	(48)
Interest income	*5(a)*	(833)	(571)
Net gain on disposal of land use right	*5(b)*	(146)	–
Gain from land resumption	*5(b)*	(44,802)	–
Net loss/(gain) on disposal of property, plant and equipment	*5(b)*	4	(19)
Changes in working capital:			
Increase in inventories		(119,410)	(20,580)
Decrease/(increase) in trade and other receivables		19,546	(87,141)
Increase/(decrease) in trade and other payables		8,932	(2,803)
Decrease/(increase) in pledged deposits		–	(8,304)
Cash generated from/(used in) operations		33,988	(11,141)

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables *(note 21(a))*	10,840	6,138	–	–
Receipts in advance	2,736	683	–	–
Derivative financial instruments *(note 27(d))*	222	–	–	–
Other payables and accruals *(note 21(b))*	10,139	5,989	1,179	1,216
	23,937	12,810	1,179	1,216

All of the above balances are expected to be settled within one year or repayable on demand.

(a) A maturity analysis of the trade payables is as follows:

As at 31 December 2013, the maturity analysis of the trade payables balance is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Due within 1 month or on demand	2,317	3,473
Due after 1 month but within 3 months	8,523	2,665
	10,840	6,138

(b) An analysis of the payables and accruals is as follows:

	The Group		The Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, wages, bonus and other accrued benefits	2,567	1,698	–	–
Payables for the purchase of property, plant and equipment	2,473	331	–	–
Other tax payables	1,545	1,107	–	–
Professional fees payables	1,179	1,216	1,179	1,216
Others	2,375	1,637	–	–
	10,139	5,989	1,179	1,216

22 BANK LOANS

(a) At 31 December 2013, the bank loans were repayable as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 1 year or on demand	239,651	125,682
After 1 year but within 2 years	2,500	–
After 2 years but within 5 years	22,597	–
	25,097	–
	264,748	125,682

(b) At 31 December 2013, the bank loans were secured as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Bank loans *(note 22(c))*		
— secured	155,657	92,104
— unsecured	109,091	33,578
	264,748	125,682

22 BANK LOANS *(Continued)*

(c) The amounts of banking facilities available to the Group and the utilisation at 31 December 2013 are set out as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Banking facilities available		
— secured	349,107	161,487
— unsecured	140,236	34,746
	489,343	196,233
Amounts utilised		
— bank loans	264,748	125,682

The secured banking facilities were secured by the following assets with carrying values as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Pledged deposits *(note 19)*	64,000	8,500
Buildings *(note 12)*	52,784	29,371
Plant and machinery *(note 12)*	9,413	12,644
Lease prepayments *(note 13)*	52,403	37,937
	178,600	88,452

During 2012 and 2013, all of the Group's banking facilities were subject to the fulfilment of certain covenants, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. During 2012 and 2013, none of the covenants relating to drawn down facilities had been breached. Details of the Group's management of liquidity risk are set out in note 27(b).

(d) Included in secured and unsecured bank loans of the Group as at 31 December 2013 were bills discounted with recourse totalling RMB30,396,000 and RMB19,965,000 (31 December 2012: RMB16,225,000 and RMB12,087,000) respectively.

23 DEFERRED INCOME

The movements of deferred income are as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Balance at 1 January	23,965	18,089
Additions during the year	–	6,849
Government grant recognised in profit or loss as other revenue *(note 5(a))*	(4,472)	(973)
Balance at 31 December	19,493	23,965
Represented by:		
Current portion	1,179	1,295
Non-current portion	18,314	22,670
	19,493	23,965

Deferred income represented government subsidies that compensated the Group for the cost of its land use right and the cost of infrastructure development which are recognised in profit or loss on a systematic basis over the useful life of the assets (note 5(a)).

24 CAPITAL, RESERVES AND DIVIDENDS

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

(a) Movements in components of equity

	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 January 2012	8	–	–	–	8
Changes in equity for 2012:					
Loss for the year	–	–	–	(1,518)	(1,518)
Other comprehensive income	–	–	(433)	–	(433)
Total comprehensive income for the year	–	–	(433)	(1,518)	(1,951)
Issue of shares upon initial public offering, net of issuing costs	1,464	132,925	–	–	134,389
Capitalisation issue	6,663	(6,663)	–	–	–
	8,127	126,262	–	–	134,389
Balance at 31 December 2012 and 1 January 2013	8,135	126,262	(433)	(1,518)	132,446
Changes in equity for 2013:					
Loss for the year	–	–	–	(1,757)	(1,757)
Other comprehensive income	–	–	(3,674)	–	(3,674)
Total comprehensive income for the year	–	–	(3,674)	(1,757)	(5,431)
Dividends approved and paid in respect of the previous year	–	(10,540)	–	–	(10,540)
Balance at 31 December 2013	8,135	115,722	(4,107)	(3,275)	116,475

24 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

(i) *Dividends payable and proposed to equity shareholders of the Company attributable to the year:*

	2013 RMB'000	2012 RMB'000
Final dividend proposed after the end of the reporting period of HK$0.013 (equivalent to approximately RMB0.0103) per ordinary share (2012: HK$0.013 (equivalent to approximately RMB0.0105) per ordinary share)	10,317	10,540

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:*

	2013 RMB'000	2012 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.013 (equivalent to approximately RMB0.0105) per ordinary share (2012: Nil)	10,540	–

24 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

Authorised and issued share capital

	2013 Number of shares ('000)	2013 Amount HK$'000	2012 Number of shares ('000)	2012 Amount HK$'000
Authorised:				
Ordinary shares of HK$1 each at 1 January	10,000,000	100,000	390	390
Share subdivision of authorised share capital of every share of HK$1 each into 100 share of HK$0.01 each on 27 March 2012 *(note (ii))*	–	–	38,610	–
Increase in authorised capital on 15 June 2012 (note (iv))	–	–	9,961,000	99,610
At 31 December	10,000,000	100,000	10,000,000	100,000

	2013 Number of shares ('000)	2013 Amount HK$'000	2012 Number of shares ('000)	2012 Amount HK$'000
Ordinary shares, issued and fully paid:				
At 1 January	1,000,000	10,000	10	10
Share subdivision on 27 March 2012 *(note (ii))*	–	–	990	–
Capitalisation issue on 6 July 2012 *(note (v))*	–	–	819,000	8,190
Issue of shares upon initial public offering *(note (v))*	–	–	180,000	1,800
	1,000,000	10,000	1,000,000	10,000

24 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital *(Continued)*

Authorised and issued share capital (Continued)

Notes:

(i) The Company was incorporated on 17 October 2011 with an authorised share capital of HK$390,000 divided into 390,000 shares of HK$1 each. On the same date, the Company issued 10,000 shares at par value of HK$1.

(ii) Pursuant to the special resolutions of shareholders of the Company passed on 27 March 2012, the 390,000 authorised shares of HK$1 each of the Company were sub-divided into 39,000,000 shares of HK$0.01 each.

(iii) On 16 April 2012, the Group completed the Reorganisation to rationalise the Group's structure in preparing for the listing of the Company's shares on the Main Board of the Stock Exchange. As a result of the Reorganisation, the Company became the holding company of the Group on 16 April 2012.

(iv) Pursuant to the written resolutions of all shareholders of the Company passed on 15 June 2012, the authorised share capital of the Company increased from HK$390,000 divided into 39,000,000 shares of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each by the creation of an additional 9,961,000,000 shares of HK$0.01 each.

(v) On 6 July 2012, the Company was listed on the Main Board of the Stock Exchange following the completion on its initial public offering of 180,000,000 shares of HK$1.0 each to the investors. The proceeds of HK$1,800,000 (equivalent to RMB1,464,300) representing the par value of these ordinary shares, were credited to the Company's share capital account. The remaining proceeds of HK$178,200,000 (equivalent to RMB144,965,000), less the share issuing costs of RMB12,040,000, amounted to RMB132,925,000, were credited to the Company's share premium account.

On the same date, 819,000,000 shares were issued at par value to the shareholders of the Company by way of capitalisation of HK$8,190,000 (equivalent to RMB6,663,000) from the Company's share premium account. The Company has 1,000,000,000 issued shares after the completion of the initial public offering and capitalisation issue.

(vi) Capital in the consolidated statement of financial position as at 1 January 2012 represented the aggregate amount of capital of the companies comprising the Group, after elimination of investments in subsidiaries.

(d) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issue of the shares of the Company.

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Exchange reserve

The exchange reserve comprises all foreign currency differences arising from the translation of the financial statements of the entities with functional currency other than Renminbi. The reserve is dealt with in accordance with the accounting policy set out in note 2(u).

24 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(iii) Statutory reserve

Transfers from retained profits to PRC statutory reserve are made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

The subsidiaries in the PRC are required to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to statutory general reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory general reserve can be used to make good prior years' losses, if any, and may be converted into paid-up capital provided that the balance after such conversion is not less than 25% of the registered capital.

(e) Distributable reserves

The aggregate amounts of reserves available for distribution to equity shareholders of the Company were RMB108,340,000 (2012: RMB124,311,000).

After the end of the reporting period, the directors proposed a final dividend of HK$0.013 (equivalent to approximately RMB0.0103) (2012: HK$0.013 (equivalent to approximately RMB0.0105)) per ordinary share, amounting to RMB10,317,000 (2012: RMB10,540,000). This dividend has not been recognised as a liability at the end of reporting period.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost.

The Group defined "capital" as including all components of equity. Trade balances and short-term bank loans that arise in the course of ordinary business are not regarded by the Group as capital. On this basis, the amount of capital employed by the Group at 31 December 2013 were RMB477,172,000 (2012: RMB362,241,000).

The Group manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustment to the capital structure in light of changes in economic conditions affecting the Group.

Except for the banking facilities which require the fulfilment of certain covenants as disclosed in note 22(c), neither the Company nor any of the subsidiaries are subject to externally imposed capital requirements in either prior or current year.

25 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2013 not provided for in these consolidated financial statements were as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Contracted for	30,240	36,748
Authorised but not contracted for	–	–
	30,240	36,748

(b) At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases in respect of rental of offices and retail shops are repayable as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 1 year	818	1,339
After 1 year but within 5 years	62	799
	880	2,138

The leases typically run for an initial period of one to five years, with an option to renew when all terms are renegotiated. None of the leases include contingent rentals.

26 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed in notes 8, 9 and 18 of these consolidated financial statements, the Group entered into the following significant related party transactions during the years presented.

(a) Name and relationship with related parties

During the years presented, the directors are of the view that related parties of the Group include the following entity:

Name of party	Relationships
Zhangping Jiupengxi Ecological Tourism Development Company Limited 漳平市九鵬溪生態旅遊發展有限公司 ("Jiupengxi")	A private company controlled by Wu Zheyan. Wu Zheyan is the ultimate controlling shareholder and a director of the Company.

The English translation of the name is for reference only. The official name of these related parties is in Chinese.

26 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Significant related party transactions

Particulars of significant related party transactions during the years presented are as follows:

	2013 RMB'000	2012 RMB'000
Sales of wooden products and contract revenue of outdoor wooden projects derived from Jiupengxi	7,323	7,985

The directors confirm that the above sales and purchase transactions are entered into with trading terms similar to those with third parties.

(c) Amount due from a related company

	RMB'000
Amount due from Jiupengxi	
Balance at	
— 1 January 2012	508
— 31 December 2012 and 1 January 2013	724
— 31 December 2013	6,155
Maximum balance outstanding	
— during 2013	6,155
— during 2012	3,373

The amount due from a related company was arisen from normal sales transactions. It was unsecured, interest-free and expected to be settled according to credit term which is similar to that with third parties.

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2013 RMB'000	2012 RMB'000
Short-term employee benefits	1,840	1,408
Retirement scheme contributions	47	44
	1,887	1,452

Total remuneration was included in "staff costs" (see note 6(b)).

26 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of the transactions with Jiupengxi above (note 26(b)) constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, currency and commodity price arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. Management has a credit policy in place and the exposure to these credit risks is monitored on an ongoing basis.

In respect of cash and cash equivalents, the Group only places deposits with major financial institutions, which management believe are of high credit rating.

In respect of trade and other receivables, the Group usually requires upfront payment for sales of goods to new customers. For export sales, the Group generally requests settlement by letter of credit issued by financial institutions or by wire transfer for certain customers with good trading history. Individual credit evaluations are performed on all new customers requiring credit over a certain amount and are also performed on existing customers on a periodic basis. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group offers 15 to 60 days of credit to export sales customers with good trading history and offers 30 to 90 days of credit to the existing domestic sales customers. Generally, debtors with significant overdue balances are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2013, 1% (2012: 11%), of the total trade and other receivables was due from the Group's largest customer and 22% (2012: 24%), was due from the five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose it to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 18.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at 31 December 2013 of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company are required to settle these liabilities.

The Group

	2013				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount at 31 December RMB'000
Bank loans	244,900	3,964	24,810	273,674	264,748
Trade and other payables	23,937	–	–	23,937	23,937
	268,837	3,964	24,810	297,611	288,685

	2012				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount at 31 December RMB'000
Bank loans	129,611	–	–	129,611	125,682
Trade and other payables	12,810	–	–	12,810	12,810
	142,421	–	–	142,421	138,492

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

The Company

	2013		
	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount at 31 December RMB'000
Other payables	1,179	1,179	1,179

	2012		
	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount at 31 December RMB'000
Other payables	1,216	1,216	1,216

(c) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at 31 December 2013:

	2013		2012	
	Effective interest rate %	Amount RMB'000	Effective interest rate %	Amount RMB'000
Fixed rate borrowings:				
RMB, Euros and USD bank loans	3.55%	139,580	5.77%	86,136
Variable rate borrowings:				
RMB and USD bank loans	3.60%	125,168	6.72%	39,546
Total net borrowings		264,748		125,682
Net fixed rate borrowings as a percentage of total net borrowings		53%		69%

(ii) Sensitivity analysis

At 31 December 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB1,064,000 (2012: RMB336,000). Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis at 31 December 2012 has been performed on the same basis.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in USD and Euros, currencies other than the functional currency of the entity to which they relate.

The Group is also exposed to currency risk associated with the bank borrowings as the Group's borrowings are denominated in RMB, USD and Euros.

During the years presented, the Group entered into foreign currency forward contracts with major state-owned banks in the PRC mainly to acquire RMB to mitigate against currency risk on receivables denominated in USD and Euros. All of the forward exchange contracts have maturities of less than one year.

At 31 December 2013, the Group had foreign currency forward contracts with their fair values recognised as derivative financial instruments (assets) of RMB2,071,000 (2012: RMB220,000) and derivative financial instruments (liabilities) of RMB222,000 (2012: Nil) and are included within "Trade and other receivables" (note 18) and "Trade and other payables" (note 21) respectively. The changes in fair value of the foreign currency forward contracts were recognised in the consolidated statement of profit or loss (note 5(b)).

(i) Exposure to currency risk

The following table details the Group's exposure at 31 December 2013 to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the end of reporting period. Differences resulting from the translation of the financial statements of the entities with functional currency other than RMB into the Group's presentation currency are excluded.

The Company does not have any significant financial assets or liabilities denominated in currencies other than its functional currency and it is not exposed to significant currency risk.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk (Continued)

The Group

	2013			2012		
	USD	Euros	RMB	USD	Euros	RMB
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	30,118	50	–	28,681	50	–
Cash and cash equivalents	3,809	298	16	5,954	92	203
Bank loans	(171,573)	–	–	(24,788)	(5,494)	–
Trade and other payables	(232)	–	–	(929)	(143)	–
Gross exposure arising from recognised assets and liabilities	(137,878)	348	16	8,918	(5,495)	203
Notional amounts of forward exchange contracts outstanding	(116,146)	(33,676)	–	(57,456)	5,494	–
Net exposure arising from recognised assets and liabilities	(254,024)	(33,328)	16	(48,538)	(1)	203

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. Other components of equity would not be affected by changes in the foreign exchange rates.

The Group

	2013		2012	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
USD	5%	(10,796)	5%	(2,063)
	(5)%	10,796	(5)%	2,063
Euros	5%	(1,416)	5%	–
	(5)%	1,416	(5)%	–
RMB against HK$	5%	1	5%	10
	(5)%	(1)	(5)%	(10)

Results of the analysis as presented above represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis at 31 December 2012 has been performed on the same basis.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Commodity price risk

The major raw materials used in the production of the Group's products include, fir and pinewood. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by the global market as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes. The Group monitors its commodity price risk by widening its supply base and performs bulk purchase when the price of raw materials is low.

(f) Fair values measurement

(i) Financial instruments carried at fair value

Fair value hierarchy

The following table presents the fair value of the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair value measured using significant unobservable inputs

As at 31 December 2013 the Group's derivative financial instruments assets and liabilities amounting to RMB2,071,000 and RMB222,000 respectively (2012: assets of RMB220,000) (notes 18 and 21) were carried at fair value, and these instruments fall into Level 2 of the fair value hierarchy described above.

During the years ended 31 December 2013 and 2012, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of reporting period plus an adequate constant credit spread.

There were no other financial assets or liabilities carried at fair value as at 31 December 2013 and 31 December 2012.

(Expressed in Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Fair value measurement *(Continued)*

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying values of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 31 December 2012.

28 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2013, the directors consider the immediate and ultimate controlling party of the Group to be Green Seas Capital Limited, which is incorporated in BVI. This entity does not produce financial statement available for public use.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2013 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
IFRS 9, *Financial instruments*	Not yet established by IASB

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	475,051	421,171	307,151	199,603	110,033
Cost of sales	(323,317)	(272,461)	(195,247)	(127,719)	(80,576)
Gross profit	151,734	148,710	111,904	71,884	29,457
Other revenue	23,070	11,761	3,504	3,073	3,022
Other net gain/(loss)	48,683	(780)	(1,686)	1,924	57
Selling and distribution expenses	(13,818)	(10,146)	(9,233)	(5,495)	(4,482)
Administrative expenses	(46,979)	(47,169)	(19,653)	(6,663)	(4,891)
Profit from operations	162,690	102,376	84,836	64,723	23,163
Finance costs	(5,463)	(5,620)	(3,759)	(1,293)	(1,190)
Profit before taxation	157,227	96,756	81,077	63,430	21,973
Income tax	(32,806)	(16,665)	(10,370)	(10,298)	(5,581)
Profit for the year	124,421	80,091	70,707	53,132	16,392
Earnings per share — Basic and diluted (RMB)	0.12	0.09	0.09	0.06	0.02

ASSETS, LIABILITIES AND EQUITY

	As at 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	807,058	535,773	282,412	189,616	114,818
TOTAL LIABILITIES	329,886	173,532	135,818	115,266	72,935
TOTAL EQUITY	477,172	362,241	146,594	74,350	41,883